

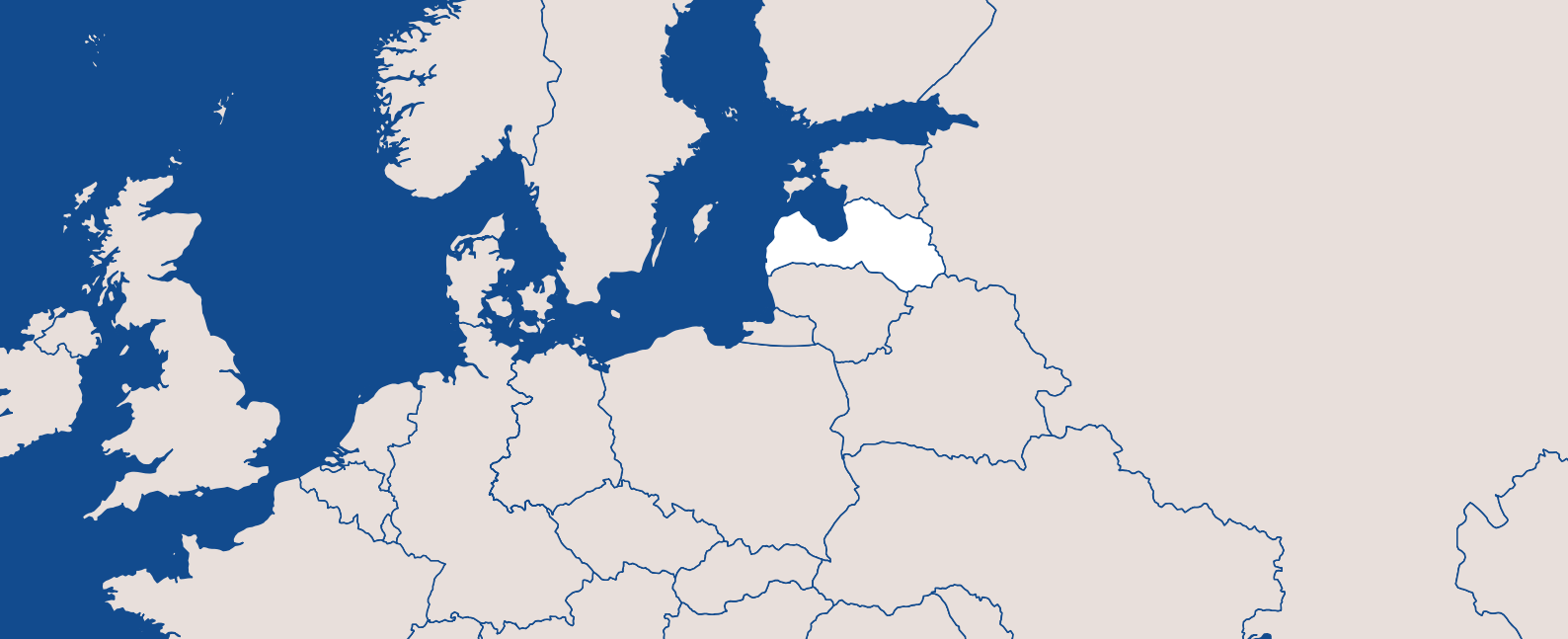
Latvian Business Guide



Latvijas Investīciju un attīstības aģentūra
Investment and Development Agency of Latvia

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Latvia is the central country of the Baltic States.

On the world map, Latvia is to be found on the east coast of the Baltic Sea at the crossroads of northern and eastern Europe. Latvia, a parliamentary republic is bordered by Estonia to the north, Russia and Belarus to the east, Lithuania to the south and has a maritime border with Sweden to the west.

Latvia has 2.2 million inhabitants of whom almost 1.3 million live in and around the capital Riga, the metropolis of the Baltic region.

With this population, Latvia is not a major market, but its key advantage is its location which provides access to its immediate neighbours. The population of the three Baltic States totals 8 million, similar to that of Sweden. On its doorstep is Scandinavia with 24 million people, Russia and the newly independent CIS states with a combined population of about 280 million and eastern Europe with 100 million inhabitants. Latvia's main asset is its well-educated workforce, having one of the world's highest number of students per capita.

The skilled labour force, abundant natural resources and strategic location form a solid foundation for Latvia's economic success and make it the ideal place to develop your business.



Discover Opportunities for your Business in Latvia

On behalf of the Investment and Development Agency of Latvia (LIAA), I would like to invite you to discover Latvia and the many opportunities it offers your business.

The attraction of foreign investment has been one of our national priorities and is recognized as a key source of economic growth. LIAA is a state agency established to promote Latvia as an attractive investment destination and trade partner. Our services include providing assistance and comprehensive information on financial, legal, fiscal, and procedural aspects of doing business in Latvia, establishing contacts with Latvian partners, identifying property options. We tailor our services to suit clients' individual needs and provide them throughout all stages of clients' investment projects.

One of the key principles of Latvian economic legislation is equal treatment of foreign investors and domestic companies. The Latvian government has acknowledged the importance of establishing a structured dialogue with foreign investors, represented by the Foreign Investors' Council, by implementing 95% of the Council's recommendations. Various incentives are offered to investors, ranging from support via EU Structural Funds to business-friendly legislation, from depreciation to special economic zones.

LIAA has developed the POLARIS Process to better serve potential investors, leading them from project idea to full implementation using locally available resources. In this process, central and local governments, universities and research institutions, and local industry players are brought together to help potential investors understand and take full advantage of Latvia's strengths and advantages.

Latvia can offer its scientific potential to enhance business development in various fields. We have a number of scientific institutions which already cooperate in international projects and can offer their services. At the same time, Latvia continues to develop technology transfer centres, competence centres and clusters which can be used to locate and develop technologies in line with your business requirements.

With Latvia being a member of the European Union, Latvia-based business can take advantage of its broad and stable common market and the free movement of goods and services, labour and capital. At the same time, its direct-access border with Russia makes Latvia ideal for east/west trade.

The Latvian Business Guide, which has been published for more than ten years, aims to help foreign companies and organisations develop business contacts with Latvia. I invite you to discover this newly updated version of the guide and explore Latvia as a business partner with great potential.



Andris Ozols
Director

Investment and Development Agency of Latvia



Latvia in Facts

International memberships:	EU and NATO since 2004, WTO since 1998
Capital:	Riga
Other major cities:	Daugavpils, Liepaja, Jelgava, Jūrmala, Ventspils, Rezekne, Valmiera, Jēkabpils
Population (as at 1 January, 2010):	2.2 million
Area:	64 559 km ²
Language:	Latvian (official), Russian, English and German are also widely spoken
Currency:	1 'Lats' (LVL) = 100 'santims'
Exchange rate:	1 LVL = 1.42 EUR (fixed rate as of January 1, 2005) 1 LVL = 1.88 USD (average in 2010)
GDP in current prices (2009):	EUR 18.615 billion
GDP per capita (2009):	EUR 8 256
Accumulated FDI (2009):	EUR 8.07 billion
Accumulated FDI per capita (2009):	EUR 3 628

Source: Central Statistical Bureau of Latvia, Bank of Latvia

Additional information:

www.csb.lv
www.bank.lv

Credit rating for the Republic of Latvia

Agency	Long term foreign currency rating	Long term local currency rating
Moody's	Baa3 (Outlook: Stable)	Baa3 (Outlook: Stable)
Standard & Poor's	BB+ (Outlook: Stable)	BB+ (Outlook: Stable)
Fitch	BB+ (Outlook: Stable)	BBB- (Outlook: Stable)
R&I	BB+ (Outlook: Positive)	-

*As at December 2010

Additional information:

www.kase.gov.lv
www.moodys.com
www.fitchratings.com
www.standardandpoors.com
www.r-i.co.jp



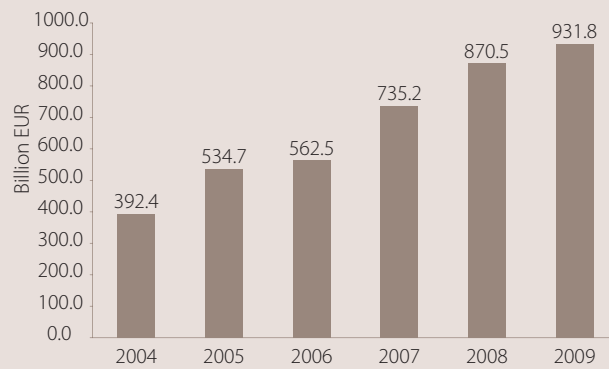
Foreign Direct Investment

FDI in Latvia (cumulative) 2004 - 2009



Source: Bank of Latvia, 2010

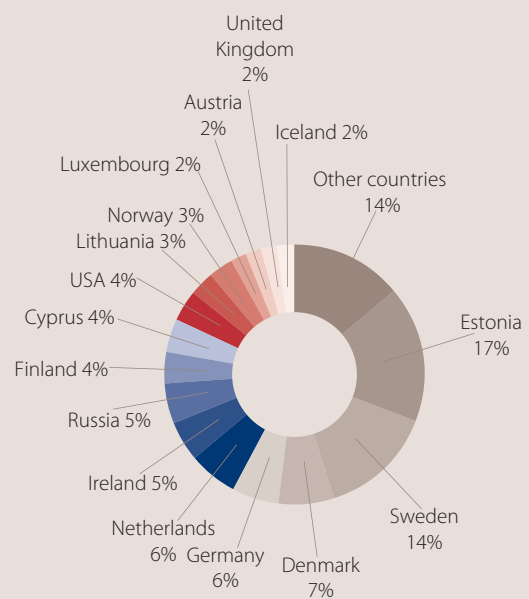
FDI in manufacturing sector (cumulative) 2004 - 2009



Source: Bank of Latvia, 2010

After Latvia's accession to the EU, the inflow of foreign direct investment (FDI) increased rapidly and reached its highest point in 2008 (LVL 5.7 billion). The main factors fostering FDI inflow were new market opportunities for foreign investors, stable monetary policy, Latvia's advantageous geographic location between the EU and CIS countries and its well-developed infrastructure. After being severely affected by the global financial crisis, Latvia is steadily regaining the confidence of foreign investors and FDI inflows are on the rise again.

FDI in Latvia by country of origin, at the end of 2009

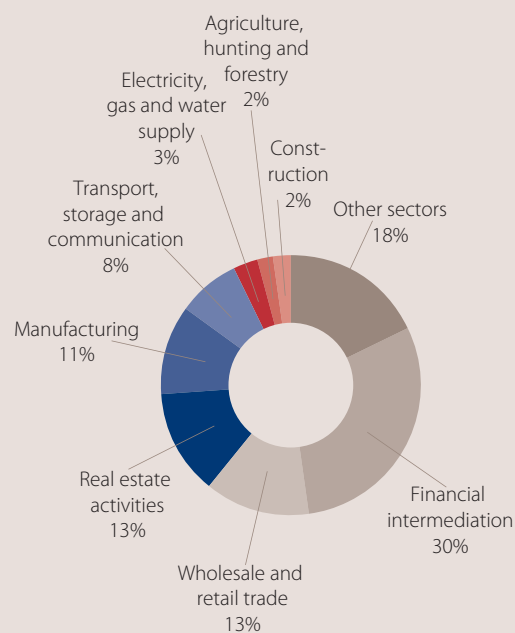


Source: Bank of Latvia, 2010

Historically, most of Latvia's FDI inflow has come from neighbouring countries in the Baltic Sea region and other EU Member States. The largest amounts of investment are from Estonia, Sweden, Denmark and Germany. A large proportion of the Estonian FDI results from 'transit investment' by Scandinavian and other investors through regional head offices established in Estonia. The FDI stock of these four countries comprised 44% of the total FDI stock in the Latvian economy at the end of 2009. Each of the four countries show markedly dominant sectors: Swedish FDI is focused in the financial service (37%) and real estate (34%) sectors, almost 65% of Estonian FDI and 37% of Danish FDI is also in financial services. German entrepreneurs have mainly invested in financial intermediation (21% of German FDI in the Latvian economy) and real estate (19%). In 2009, investment from within the EU comprised around 70% of total FDI inflow.

Overall though, Latvia's FDI inflows cover a wide range of economic sectors. The largest share of FDI stock is attributable to services: FDI split by sectors shows that most investment is attracted by financial intermediation (29%), wholesale and retail trade (13%) and real estate operations (13%). FDI in manufacturing only makes up 11% of total FDI stock.

FDI by sector, 2009



Source: Bank of Latvia, 2010

The table below presents a list of some of the most interesting foreign investment projects successfully implemented in innovative and high added value sectors including IT, environmental technology and manufacturing.

Table 1. Some of the foreign investment projects established in Latvia

Sector	Investor	Local Company	Activity	Location
Wood Processing	Norvik hf (Iceland)	SIA Vika Wood	Manufacture of forestry and timber-products	Talsi
	Aureja Limited (Cyprus)	SIA Bolderaja Ltd., AS Bolderāja	Manufacture of wood products	Riga
	Forrest Distribution LCC (USA)	SIA STAĻI	Wood-processing	Cesis, Priekuli
	Jeld-Wen Inc. (USA)	SIA JELD-WEN Latvija	Manufacture of wood products	Aizkraukle
	Swedwood Holding B.V. (Netherlands)	SIA Swedwood Latvia Ltd.	Manufacture of wood and wood products	Incukalns
Metals and Machinery	EuroMaint Rail (Sweden)	SIA EuroMaint Rail	Railway rolling-stock repairs and maintenance	Jelgava
	Hydraulik Bauteile (Germany)	SIA Hydraulik Bauteile Baltic	Manufacture of hydraulic components	Ventspils
	Moscow City Property Department (Russia)	SIA AMO Plant	Manufacture of automotive components	Jelgava
	Leax Group (Sweden)	SIA LEAX Baltix	Manufacture of truck components for	Rezekne
	AKG (Germany)	SIA AKG THERMOTECHNIK LETTLAND	Manufacture of spare parts and accessories for motor vehicles	Jelgava
Transport and Storage	Indtec Finance B.V. (Netherlands)	SIA Indtec Baltic Coal	Coal terminal	Ventspils
	Sang Bo Co., Ltd. (Korea)	Sang Bo Co., Ltd. filiāle SBK-EU	Screen/glass film logistics and distribution in EU	Riga region
	Transnefteprodukt AO (Russia)	SIA LatRosTrans	Pipe-line transportation	Daugavpils

Sector	Investor	Local Company	Activity	Location
Transport and Storage	Joska Eignarhaldsfelag ehf av Plc (Iceland)	SIA Do It	Warehousing and support activities for transport	Riga
	Deutsche Post Beteiligungen Holding GmbH (Germany)	SIA DHL Latvia	Warehousing and support activities for transport	Riga
Information Technology	Tilts Communications A/S (Denmark)	SIA Lattelecom	Fixed-telecommunications, IT & ISP services	Latvia
	UAB Bite Lietuva (Lithuania)	SIA BITE Latvija	Operator of mobile, internet services	Latvia
	Exigen East B.V. (Netherlands)	AS Exigen Services Latvia	Software development, consultancy and related activities	Riga
	Itella Corporation (Finland)	AS Itella Information	Information technology and computer services	Riga
	Tele2 Sverige Aktiebolag (Sweden)	SIA Tele2 Holdings	Operator of mobile, internet services	Latvia
Life Sciences	Agrochema (Lithuania)	SIA Agrochema Latvia	Wholesaling of chemicals	Iecava
	P-D Glasseiden Oschatz GmbH (Germany)	AS Valmieras Stikla šķiedra	Manufacture of fibreglass	Valmiera
	Syntagon Invest AB (Sweden)	SIA Syntagon Baltic	Organic chemical synthesis	Riga
	Industrial Yarns Holding AG (Switzerland)	SIA Nexis Fibers	Manufacture of man-made fibres	Daugavpils
	Grant Instruments (Cambridge) Limited (UK)	SIA Biosan	Manufacture of products for sample preparation in genomics, proteomics, cellomics	Riga
Healthcare Services	AVA Clinic Int OY (Finland)	SIA AVA Clinic	Infertility treatment	Riga
	Ivasyutin Yaroslav (Russia)	SIA Elite	Medical clinic	Riga
	Kadničanskijs Sergejs (Russia)	SIA Privātklīnika Jūsu ārsti	Infertility treatment	Riga
	Carbico Trading S.A. (UK)	SIA Reproductīvās medicīnas Centrs "EMBRIONS"	Infertility treatment	Riga
	Sirowa International Holding B.V. (Netherlands)	SIA STP Vivenda	Dental care	Riga
Environmental Technology	L&T Improvement Oy (Finland)	SIA L&T	Waste collection, treatment and disposal activities	Riga
	Carex Services Limited (UK)	SIA European Plastic Industries	Recovery of sorted materials	Olaine
	Kuusakoski OY (Finland)	SIA Kuusakoski	Recovery of sorted materials	Riga
	Ragn-Sells Aktiebolag (Sweden)	SIA Ragn-Sells	Waste collection	Riga
Other Manufacturing	Cemex (Netherlands)	SIA Cemex	Manufacture of cement	Broceni
	AG&L Technologies (Sweden)	SIA AGL Technologies	Research lab for ultra-thin coatings	Riga
	Bau-How AS (Norway)	SIA Bau-How Baltic	Modular-building manufacture and construction	Ventspils
	Smurfit Kappa Danmark AS (Denmark)	SIA Smurfit Kappa Baltic	Paper-based packaging	Jelgava
	Brabantia International B.V. (Netherlands)	SIA Brabantia Latvia	Manufacture of household goods	Talsi

Source: Investment and Development Agency of Latvia, Lursoft, publicly available information, 2010

Additional information:

www.bank.lv
www.liaa.gov.lv



Incentives for Investors

The Latvian government continues to work on developing a favourable climate for foreign investment by improving the business environment. Legal and administrative requirements are being eased so facilitating cooperation between international and local, non-government partners. The incentives for both foreign and local investors are particularly aimed at encouraging investment in the modernization of manufacturing and the development of innovative technologies.

STATE AID PROGRAMMES

One of the main objectives for the government support programmes developed for 2007-2013 is to attract foreign investment to manufacturing and export as well as to technology sectors. The total amount of State and EU Structural Fund-financing granted for government support programmes up to 2013 is LVL 242.83 million. State support, co-financed from EU Structural Funds is available in the following ways:

Promotion of innovation

The goal of these activities is to promote business activities with high value added by providing support for the development of new products and technologies and fostering cooperation between the research and business sectors:

- competence centres – activities aimed at increasing the competitiveness of enterprises, promoting research and industry cooperation in industrial research, new product and technology development projects;
- development of new products and technologies – finance for industrial research and experimental development;
- support for the introduction of new products and technologies in manufacturing – finance for the introduction of new products and technologies in production;

- support for establishing ownership rights for industrial property – finance for registering property rights to industrial intellectual property;
- investment projects with high added value – activities designed to encourage local business people to invest in knowledge- or technology-intensive projects, as well as to attract foreign investment to sectors with high added value.

Loans and guarantees

Intended to foster the availability of financing for business development while decreasing the negative impact of direct government support on market competition:

- credit guarantees – investment and working capital loans
- short-term export credit guarantees
- loans to improve competitiveness
- venture capital funding

Business start-ups

Activities are aimed at facilitating access to international markets and the use of innovations, such as business incubators:

- business incubators have been established to promote the founding and development of new, viable and competitive businesses in Latvia's regions, providing them with an environment appropriate to business and consulting services, thus creating a favourable climate for foreign investors;
- start-up capital – in cooperation with investment company *Imprimatur Capital*, provides capital in high added-value sectors such as IT, life sciences, nanotechnologies, medical devices, etc.

Promotion of business activities

Activities intended to increase business competitiveness on national and international scales and to develop business activities in regions by supporting investment in micro, small and medium-sized enterprises in regions with special support status.

Energy

Activities aimed at increasing the use of renewable resources by facilitating the development of renewable-energy cogeneration power plants.

Additional information at:

www.em.gov.lv
www.liaa.gov.lv
www.esfondi.lv
www.hypo.lv
www.lga.lv

TAX INCENTIVES

Depreciation for tax purposes

Tax depreciation for fixed assets is calculated using the declining balance method. The amount of depreciation for a taxpayer's fixed assets over a taxation period shall be calculated from the residual value of each category of fixed assets prior to the deduction of depreciation in the taxation period.

The acquisition costs of patents, licences and trademarks are depreciated over five years by the straight-line method, but concessions are depreciated over ten years. For tax purposes, patents, licences and trademarks issued for a term of less than five years or concessions issued for less than ten years may be written off within their term of validity.

Table 2. Depreciation rates for corporate income tax purposes

Category	Rate of depreciation	Type of fixed assets
1	10%	Buildings, structures, permanent plants
2	20%	Railway rolling stock and technological equipment, marine and river vessels, fleet and port technological equipment, power equipment
3	70%	Computing devices and related equipment, including printing devices, information systems, software products and data storage equipment, means of communication, copiers and related equipment
4	40%	Other fixed assets, except the fixed assets referred to in Category 5 and assets related to transport
4	30%	Passenger cars (except vehicles acquired for representation purposes after 2007), motorcycles, marine and river vessels and air transport acquired after 12 June 2007 and not classified as representation automobiles
5	15%	Oil exploration and extraction platforms together with the equipment necessary for their functioning located on such platforms, oil-exploration and -extraction ships

Increased depreciation

Increased depreciation rates may be applied to new technological manufacturing equipment, used in business activities, acquired or developed after 31 December 2005. For tax-depreciation calculating purposes, the value of manufacturing equipment qualifying for increased depreciation is increased by the coefficients showed in Table 3.

Table 3. Increased depreciation coefficients for new technological manufacturing equipment

Taxable period the equipment was acquired or developed	Coefficient
2006	1.5
2007	1.4
2008	1.3
2009 - 2013	1.5

New technological manufacturing equipment is unused (new) machine tools for the performance of specified sequential technological operations as a whole, as the result of which the properties of the work item (substance, material, article) are modified, thus creating an increase in the value of the work item, and the essential accessories and auxiliary devices of the said machine tools with which the performance of the machine tool's technological operations as a whole are supplemented. Machine tools are installations (mechanisms or sets thereof) the essential components of which are full drive executing systems and control systems.

The law provides tax incentives for the depreciation of trademark or patent acquisition costs. The amount of registered trademark or patent acquisition costs incurred in taxation periods commencing during 2010, 2011, 2012 and 2013 is increased, multiplying it by 1.5 for tax depreciation calculating purposes. Depreciation for other intangible assets (trade secrets, goodwill) is not allowed.

Tax rebates for investment within the scope of supported investment projects

Currently, the government is developing new tax-incentive legislation to allow taxpayers to claim tax credits for initial long-term investment in supported investment projects, in the following amounts:

- 25% of total initial long-term investment up to LVL 35 million (approx. EUR 50 million)
- 15% of the part of the total initial long-term investment exceeding LVL 35 million

Tax credits can be claimed for investment in the following sectors, priority manufacturing industries:

- manufacturing of food and beverages, agriculture
- manufacturing of wood and woodworking products
- manufacturing of chemicals, pharmaceuticals, rubber and plastics
- manufacturing of computers, electronic, optical and electrical equipment
- manufacturing of metals, equipment, machinery and vehicles
- steel manufacturing and shipbuilding sectors

To receive tax credits, tax payers shall submit applications for supported investment projects, drawn up in accordance with the provisions of relevant Cabinet

regulations. The total initial long-term investment shall be at least LVL 5 million (approx. EUR 7.1 million), invested over at least a three-year period for the purpose of creating new products, modifying manufactured products or significantly changing the manufacturing process.

Taxpayers using tax credits for initial long-term investments will not be eligible to apply for the increased depreciation or tax incentives available in Free Ports and Special Economic Zones.

Tax credits for initial long-term investment in supported investment projects will enter into force on 1 January 2011.

Tax incentives for companies established in special regions

Companies, established in accordance with the Law on Regional Development, carrying on business in areas recognized as special development areas under the law are entitled to increase their depreciable base of fixed assets used for business activities in these areas by the coefficients 1.5 (Category 1 fixed assets), 1.3 (Category 2), 1.8 (Category 3) and 2 (Category 4).

Table 4. Increased depreciation coefficients for fixed assets in special regions

Category	Rate of depreciation	Type of fixed asset
1	1.5	Buildings, structures, permanent plants
2	1.3	Railway rolling stock and technological equipment, marine and river vessels, fleet and port technological equipment, power equipment
3	1.8	Computing devices and related equipment, including printing devices, information systems, software products and data storage equipment, means of communication, copiers and related equipment
4	2	Other fixed assets

Transfer of losses

A company's losses during a taxation period may be carried forward and covered, in chronological sequence, from taxable income in the next eight taxation periods.

SPECIAL TAXATION REGIMES

Pursuant to the Law on the Application of Taxes in Free Ports and Special Economic Zones, a special tax regime shall apply to companies operating in the Liepaja Special Economic Zone, Rezekne Special Economic Zone, Ventspils Free Port and Riga Free Port.

The applicable tax holidays or favourable conditions are as follows:

- up to 80% rebate on real estate tax;
- 80% rebate on corporate income tax on income derived in the zone (the rebate is calculated from the 25% corporate income tax rate) until compensation of 50% of the amount invested (65% for SME's);

- 80% rebate on withholding tax for dividends, management fees and payments for usage of intellectual property;
- VAT of 0% for the goods transported to free zones deemed to have been exported;
- all investment made within the free port or special economic zone territory (including construction and technologies) shall be taxed at the 0% VAT rate if agreed with authorities;
- expatriates employed by a company operating in a free port or special economic zone who pay social security in their home countries may pay social security on a minimum amount, that is, 15 minimum salaries per year, in accordance with the relevant Cabinet Regulation.

However, for the stated tax holidays or favourable conditions to apply, certain criteria specified in the Law on the Application of Taxes in Free Ports and Special Economic Zones shall be met.

PROTECTION OF INVESTMENTS

Latvia has signed bilateral agreements for the promotion and mutual protection of investments with 43 countries. The agreements grant safety and protection to investments made in real estate, intellectual property, shares or any other form of investment, prohibiting the application of unreasonable, discriminatory or arbitrary measures to investments by the other contracting State and direct or indirect expropriation or nationalisation. Through these investment agreements, Latvia grants national or most favoured nation treatment to foreign investment and the expansion, management, maintenance, use, enjoyment and sale or other disposal of investments made by contracting parties.

FOREIGN INVESTORS' COUNCIL IN LATVIA

The Foreign Investors' Council in Latvia (FICIL) is a non-government organisation that unites the largest companies, from different countries and sectors, who have invested significantly in Latvia. Additionally, ten national chambers of commerce operating in Latvia have joined FICIL. The companies represented in FICIL account for about 40% (approx. LVL 800 million) of total foreign direct investment stock.

FICIL's activities are based on dialogue with the Latvian government to improve the business environment and investment climate in Latvia. FICIL members identify issues which affect business operations and cooperate with various government agencies to solve problems through changes in legislation or administrative procedures. The main activities of FICIL address four key issues for improving Latvia's investment climate:

- transparency
- elimination of protectionism for a well-functioning market and reduced inflation
- stability and predictability in the investment climate
- more forceful attraction of foreign direct investment

To foster the discussion between executives of the foreign investor companies and representatives of the Latvian government, FICIL regularly meets with the government in annual High Council meetings jointly chaired by the sitting Prime Minister and the CEO of a FICIL member's parent company to review progress and provide further direction.

POLARIS PROCESS

To better serve potential investors, LIAA has developed the POLARIS Process. The key to this new, unique methodology – the POLARIS Process – is collaboration between all stakeholders. In this process, national and local governments, universities and research institutions, and local industry players are brought together to help potential investors understand and take full advantage of Latvia's strengths and advantages.

LIAA's support does not end once investors decide to proceed with their investment. The POLARIS Process starts even before investors meet with the LIAA and only ends well after the project is implemented. We provide in-depth knowledge of sectors, project management support, project execution support and then follow up and measure results in order to keep improving the process. For each step of the process, POLARIS defines the tasks to be undertaken by each stakeholder.

Additional information at:

www.polarisprocess.com
www.liaa.gov.lv
www.vid.gov.lv
www.ficil.lv



Promising Business Sectors

On the basis of Latvia's comparative advantages, LIAA focuses particularly on seven promising sectors with high-potential opportunities for foreign investment:

WOODWORKING

Summary

The woodworking sector is one of Latvia's most important export industries and plays a key role in generating rural and regional employment. The industry's success is based on Latvia's favourable combination of vast forest resources, strategic location and a cost-efficient labour force. Additionally, government policies aimed at achieving sustainable forestry development have supported the industry's success.

Key Advantages

- Traditionally strong sector
- Easy access to raw material
- Abundance of skilled labour
- High private investment in R&D
- Supportive government initiatives, focused on facilitating innovation and encouraging higher value production
- Sustainability of the industry

Because of its advantageous geographic location, Latvia has access to both western and eastern European markets. Today, this sector accounts for 20% of Latvia's exports and 80% of the sector's output is intended for export, with value added in the woodworking sector increasing overall.

With forests covering more than 50% of Latvia's territory (1.6 times the world average), Latvia is one of the most forested EU member states. Over the last 70 years, the forested area has nearly doubled while standing volume has increased 3.6 times, reaching 631 million

cubic metres. About 50% of forests are owned by the State. Management of State forests is undertaken by *Latvian State Forests (Latvijas valsts meži)*. The relatively good health of Latvian forests compared with world averages gives them a substantial advantage. Government initiatives aimed at sustainable management contribute to the success of this sector and its long-term viability.

The industry's success is also based on an excellent labour force, one of the lowest electricity prices in the European Union and high investment in R&D. High investment in tangible assets promises further productivity increases. Government initiatives support the sector's further expansion by promoting higher value products and facilitating innovation, among other aspects.

Additional information at:

www.latvianwood.lv
www.lvm.lv

METALWORKING AND MECHANICAL ENGINEERING

Summary

Metal processing and engineering has historically been one of the leading industrial sectors in Latvia, as the country was one of the high-tech manufacturing centres for Soviet military and aerospace industries. Key advantages of the sector include its skilled and cost-efficient workforce, strong R&D capability, access to metal supplies from Russia and markets in the west.

Key Advantages

- Traditionally a leading sector
- Convenient access to raw materials because of advantageous geographic location

- Excellent logistics infrastructure
- Competitive labour force
- Highly competitive in higher value products
- One of the lowest electricity prices, EU-wide
- Shift towards more sophisticated production

Metalworking and Mechanical Engineering have traditionally played an important role in Latvia's economy, today accounting for 30% of Latvia's total exports. Having been a high-tech manufacturing centre for Soviet-era military and aerospace industries, Latvia's R&D capability and the high educational standard of the sector's workforce result from long-standing experience. While the sector has been revitalised and undergone restructuring during the past few years, its share in the economy has been stable at 2.5% and since 2000 the sector has grown by 250%.

Being at the heart of Europe's fastest-growing area – the Baltic Sea region – after the disintegration of the Soviet Union, the sector recovered and production has shifted towards more sophisticated products, with the production share of basic metals declining. The sector covers a rather broad range of products, ranging from basic metals to electronics, machinery and equipment for manufacturing medical, precision and optical instruments. Currently, the sector is based mainly on export-oriented contract manufacturing activities. However, with the development of the domestic construction market, metal processing is also rapidly evolving in this direction.

Convenient access to raw materials is provided by Latvia's geographic position as a gateway between east and west and a well-developed logistics network, with the best railway links to Russia. A competitive labour force, high investment in tangible assets and low electricity prices for industry support the sector's future expansion and the shift towards more sophisticated products. Government initiatives encourage this shift and also aim to promote energy efficiency which, in comparison to other CEE countries, is already quite high.

Additional information at:

www.masoc.lv
www.letera.lv

TRANSPORT AND STORAGE

Summary

Latvia is located at the heart of Europe's fastest-growing area – the Baltic Sea region. The transport and storage sector's success is based on Latvia's favourable combination of an advantageous geographic location, providing access to the Russian and western European markets, a competitive labour force and excellent infrastructure, with three ice-free ports, the best railway connection to Russia and a fast-growing air transport sector.

Key Advantages

- A historic transport and trade gateway
- Access to Russian and European markets
- Excellent infrastructure
- Freight volumes projected to increase
- Diversified, no bias towards road transport
- Rapid development of air transport sector
- Riga International Airport – a regional hub
- Competitive labour force

A transport and trade gateway between the east and west since Hanseatic League times, Latvia has managed to successfully revitalise the role of its location as part of its economic success since regaining independence. Since that regaining of independence, railway, port and road transport have again emerged as important links in the transit of goods between Russia and the countries of east and central Asia, and Europe. This position has been strengthened by Latvia's accession to the EU. Latvia not only provides access to the European market but also access to the border-free Schengen zone. Today, this sector contributes more to GDP than the whole of manufacturing industry.

With an excellent infrastructure and freight volumes projected to increase in the future, the transport and storage sector is one of the most promising sectors in the Latvian economy. The Latvian transport and storage sector is not biased towards road transport, as are other economies in the region. Instead, the Latvian transport and storage sector is more diversified, sea and railway transport being important export services. The rapid development of air transport could be observed in the 2000s. *airBaltic* has emerged as the leading airline in the Baltic States, transforming Riga International Airport into a major regional hub.

Competitive labour and favourable government policies aimed at improving road infrastructure, promoting railway freight, simplifying customs procedures with Russia and at promoting the use of IT and new technologies, further contribute to the potential of the sector.

Additional information at:

www.transport.lv
www.sam.gov.lv

INFORMATION TECHNOLOGY

Summary

Latvia's IT sector provides substantial competitive advantages to investors, mainly through the availability of highly skilled IT professionals, language skills and a combination of western-style working culture with proximity to and knowledge of the Russian market. A highly developed communications and logistics infrastructure and government support further contribute to the sector's appeal.

Key Advantages

- Well-developed export market
- Knowledge of foreign languages among IT professionals
- Western-style working culture
- Highly developed logistics and communications infrastructure
- Low electricity prices for industry
- Supportive government policies
- Skilled labour force and high investment in tangible assets contribute to productivity

The Latvian IT sector began to evolve back in late 1950s with important institutes being established, including the Institute of Mathematics and Computer Science in 1959 and the Institute of Electronics and Computer Science in 1960. Today, the sector accounts for around 1% of GDP. Many new businesses have been created in the IT sector, mainly micro enterprises employing less than nine staff.

Value added and turnover have been increasing continuously over the past decade and Latvia's export market is the best developed among the Baltic States, with Latvia's share of revenues outside the Baltic States being 43%, followed by Lithuania's 31% and Estonia's at only 10%. Proximity to Russia and knowledge of foreign languages among Latvian IT professionals, combined with a western-style working culture adds to the sector's appeal.

A highly developed logistics and communications infrastructure supports the development of Latvia's IT sector. In 2008, 70.2% of businesses were computerised and the number of businesses with internet access had increased to 56.7%. Today, Latvia ranks among the top five countries globally by average measured internet connection speed. Low electricity prices for industry, a skilled labour force and high investment in tangible assets additionally contribute to the competitiveness of the Latvian IT sector.

Government policies promote the use of IT solutions by businesses and the general public and are aimed at utilising IT solutions to improve efficiency, be it by implementing e-government solutions in the public sector or by employing e-health solutions to reduce rising costs and improve service quality in the health care sector.

Additional information at:

www.likta.lv
www.itnet.lv
www.telecom.lv
www.lia.lv

ENVIRONMENTAL TECHNOLOGY

Summary

Experienced in renewable energy generation, Latvia provides an excellent environment for green energy projects. Being the main exporter of environmental technology and resources in the EU, Latvia has the potential to expand this sector, equipped with skilled labour, long-standing experience and the necessary resources. Latvia's efforts to improve energy efficiency and increasing enrolment in degree courses relevant to the sector further add to the industry's potential.

Key Advantages

- Supportive government policies and EU initiatives
- Attempts to decrease energy dependence on Russia
- Long-standing experience and expertise in the generation of energy from renewable sources
- Leading exporter of renewable energy sources in the EU
- Lowest energy intensity in CEE
- Low energy prices
- Abundance of natural resources
- Increasing enrolment in degree courses relevant to the sector

Latvia is the leading renewable energy resources exporter in the EU, contributing more than a quarter of total exports, which may come as a surprise to many. However, Latvia has traditionally relied on hydroelectric power for electricity generation. After regaining independence in 1991, green energy continued to be on the agenda, also as a means to decrease dependence on Russian imports. Furthermore, the renewable energy sector is also a European Union priority, aiming to increase the sustainability of the energy sector and to create new jobs. In Latvia, strong incentives for the development of the environmental technology sector are provided by the mandatory procurement of electricity generated from renewable energy sources (RES).

In Latvia, the share of renewable energy resources in total consumption is currently 30%, 3.5 times higher than the EU average. Being one of the most forested EU member states, Latvia has great potential to increase the generation of energy from renewable resources, particularly in biomass. Biomass is derived from living or recently living organisms, such as wood. Particularly relevant to Latvia, biomass can also be derived from by-products of the woodworking sector, one of the country's most important. Today, most energy from renewable resources is generated from hydropower and biomass.

Latvia's workforce in the sector is skilled and highly competitive. Currently, there are numerous vocational programmes and around 31 degree courses relevant to the sector and enrolment has been increasing over the past few years. In addition, investment in tangible assets has been increasing, contributing to productivity and competitiveness.

Additional information at:

www.vidm.gov.lv
www.em.gov.lv
www.latbionrg.lv
www.windenergy.lv

HEALTH CARE

Summary

Latvia's health-care sector has recently undergone restructuring and budget cuts aiming to increase efficiency and facilitating the introduction of additional private health care options. The potential of the sector lies in the combination of highly qualified personnel, low costs and first-rate facilities. Medical tourism is an emerging sector, building on Latvia's reputation as a spa destination, its convenient location and the availability of high-standard health services at a low cost.

Key Advantages

- Recent efforts to improve efficiency
- Highly qualified workforce at competitive prices
- High standard of health services
- Promising new business opportunity: medical tourism
- Government support for an efficient and innovative health care sector

Since Latvia regained independence, considerable efforts have been made to improve the health care sector's efficiency. The number of hospitals was reduced from 134 to 78 between 2003 and 2008, specific functions

have been delegated to a few specialised institutions and the Ministry of Health's administrative apparatus has been scaled down, from 1319 employees to 593 employees in 2009 alone.

Health care is still one of the largest sectors in the Latvian economy in terms of employment, with the total figure fluctuating between 50 000 and 60 000. National expenditure on health is one of the lowest in the EU, currently around 6% of GDP, whilst private expenditure is at around 40%, despite the relatively low number of private insurance plans. Latvians are used to paying for health care, 29% of health care services are paid for by individuals. This could be a facilitating factor in the introduction of private health care services. Currently, one of the Latvian government's initiatives is to increase the insurance coverage provided by the State and to promote private insurance plans.

A promising area is the export of health care services, in the form of medical tourism. Given the competitive salaries and high quality of Latvian medical services, excellent transport links to major cities in Western Europe, Russia and the CIS, and Latvia's already excellent reputation as a spa destination in Russia, this sector certainly has great potential.

Additionally, the Latvian government is supporting the sector by initiatives to increase efficiency and by fostering innovative solutions such as e-health. To resolve the mounting challenge of the ageing population, investment in nursing and social care facilities is planned.

Additional information at:

www.vm.gov.lv
www.rsu.lv

LIFE SCIENCES

Summary

Latvia's life-science sector combines strong R&D capability, established manufacturing infrastructure and geographic and cultural proximity to eastern and western markets. A very competitive work force and further investment in raising productivity levels and to foster R&D related activity, contribute to the potential and success of the industry.

Key Advantages

- Strong R&D capability
- Established manufacturing infrastructure
- Geographic proximity to eastern markets
- Long-standing traditions in chemistry
- Skilled and competitive workforce

The Latvian chemical industry is a cornerstone of today's economy. History shows that, as early as in the 19th century, Latvian chemists had made a significant contribution to research. The most prominent scientists of that era were Wilhelm Ostwald, Nobel Prize laureate in 1909, acknowledged to be one of the founders of physical chemistry, and Paul Valden nominated twice for the Nobel Prize, a founder of physical organic chemistry. Life sciences became a priority during Soviet times, when some of Latvia's leading research institutions were established. During that period Latvia was the principal location for life sciences, with 25% of all new drugs designed and one in four medical products manufactured here.

Today, the sector accounts for 1% of the Latvian economy with value added growing steadily. As a result of its advantageous geographic location, Latvia has access to both western and eastern European markets. Exports have been increasing continuously, tripling just in

the time directly preceding and after Latvia's EU accession, between 2003 and 2008. The EU is Latvia's main export partner, followed by Russia.

Of the three Baltic States, Latvia leads the life science sector, having the highest value added in this sector. A very competitive labour force, higher wage-adjusted productivity in almost all sub-sectors and increasing R&D expenditure support the excellent performance of Latvia's life-science sector. The sector is further supported by a higher investment rate for tangible assets, which will further increase the productivity of the Latvian labour force.

Additional information at:

www.vm.gov.lv
www.lakifa.lv
www.latbiotech.lv



Human Resources

EMPLOYMENT RELATIONSHIPS

Employment relationships in Latvia are regulated by the Labour Law which transposes many aspects of EU employment law and social policy directives, such as those relating to equal treatment, collective redundancy, working hours and rest breaks. Monitoring of Labour Law compliance is executed by the State Labour Inspectorate and representatives of employers and trade unions.

The Labour Law:

- employment contracts shall be concluded before the start of employment relationships;
- information about new employees shall be submitted to the relevant State institution (the State Revenue Service (SRS)) one (1) working day before employment starts;
- employment contracts shall be concluded for an indefinite term, excluding certain cases such as projects or temporary jobs, or short-term employee replacement. The duration of fixed-term contracts may not exceed three (3) years.

Key provisions of the Labour Law:

- probation period: to determine whether an employee is qualified to perform the assigned job, a probation period may be defined in the employment contract. The probation period may not exceed three months. During this period, both the employer and employee can terminate the employment contract giving three days' notice and are not obliged to provide a reason for termination;

- after the probation period, employers can terminate employment relationships by giving at least one month's notice.

Compensation:

- Monthly salaries may not be less than the minimum stipulated by the State, which, from 2011, is LVL 200 gross (EUR 285 gross);
- If an employee falls ill, the employer shall disburse sick pay for the 2nd till 10th working days: 75% of average earnings for the 2nd and 3rd days, 80% of average earnings for the 4th till 10th days of the illness. As from the 11th day of illness, sick pay is paid by the State Social Insurance Agency;

Working time:

- The Law provides for five working days per week, regular working hours per day should not exceed eight hours, regular working hours per week – 40 hours. Hours worked per day in the framework of this Law mean hours worked within a 24-hour period;
- Employers can set cumulative working time when the nature of the work does not allow the setting of regular working hours or regular weekly hours for certain employee categories, for example, service companies working around the clock;
- Cumulative working time should not exceed:
 - 56 hours per week – the maximum number of hours an employee can work within a one-week period;
 - 160 hours per 4-week period. If an employee works longer hours than provided for by the Labour Law, the extra hours shall be considered overtime.

LVL 200 Gross salary

Employee receives

45 LVL (non-taxable amount)
-11% (social security contribution)
-25% (personal income tax)

= LVL 145 (EUR 206)

Cost to employer

+ 24.09% employer's part of
social security contribution

= LVL 248 (EUR 352)

(Calculation of an employee's net salary is based on the general algorithm above, the actual formula is more complicated, also taking into account a number of tax discounts, e.g. for dependants.)

- Employees working overtime or during public holidays are entitled to additional pay of at least 100% of their daily or hourly salary. Cumulative overtime should not exceed 144 hours within a four-month period. Public holidays in Latvia are: January 1, May 1, May 4, June 23 and 24, November 18, December 24, 25, 26 and 31, also Good Friday and Easter Monday;
- Salary payments shall be made at least twice per month, but employers and employees can agree on different payment schedules;
- Each employee is entitled to paid annual leave of at least four calendar weeks, including both working days and days off, but not public holidays. At least one part of annual leave (vacation) should consist of two continuous weeks.

Bonuses:

During the period of economic growth before 2008, a number of companies practised the payment of variable compensation including short-term bonuses – monthly, quarterly and/or annual bonuses and profit shares, however long-term motivational schemes plans have now become more important, providing compensation for employees' effective, long-term performance in the form of bonuses, company shares and savings programmes. Health insurance is also one of the most popular bonuses.

Additional information at:

www.lm.gov.lv
www.nva.gov.lv
www.vid.gov.lv

FEATURES OF THE LABOUR MARKET

Latvia's population in June 2010 was 2.24 million, including approximately 52% or 1.16 million economically active people. Registered unemployment nationally in November 2010 was 14.3% (a decrease compared to 20.4% at the beginning of the year). This decrease is the result of growth in economic activity. The highest unemployment levels are among unskilled workers, however, there are shortages of qualified and experienced specialists in certain areas and positions.

In addition to unskilled workers, the most numerous categories of job seekers are retail sector employees (14% of all job seekers), followed by administrative personnel and assistants (11%) and applicants for service industry positions (11%). The smallest categories of job seekers numerically are specialists in finance and law (approx. 2%).

The most in-demand specialists are IT professionals and sales specialists (active sales in B2B sectors).

2010 is considered to be the stabilisation phase for Latvia's economy and labour market. During 2008/2009,

many enterprises implemented workflow optimisation processes; together with staff reductions this has resulted in increased productivity per employee and ensuing efficiencies. This is one of the most significant and positive signs for the labour market in 2010.

Youth in the labour market

The integration of young people and graduates into Latvia's labour market is crucial. It is accomplished both within the framework of State-subsidised youth internship programmes and grant and talent development programmes in major Latvian companies: banks, IT, retail and other industries.

Generally, the majority of Latvia's young people commence their careers while still studying, thus numerous young, leading specialists are already active in the labour market. These people are self-confident, possess good communication skills and are technologically adept. Participation in student exchange programmes, youth organisations (e.g. AIESEC) and international communication is fostering foreign language skills.

Young people from the other Baltic States, as well as CIS countries such as Ukraine and Belarus, frequently choose Latvia as their preferred country for studies and work.

Knowledge of foreign languages

According to recent *Eurostat* research (September 2010), Latvians have the highest foreign language skills among the EU countries. The most popular foreign language among middle-aged and older people is Russian with 54.7% of survey participants evaluating their knowledge of Russian as very good. The most popular languages among young people under 35 are English, followed by German. Other popular languages in Latvia are French, Italian, Polish and some Scandinavian languages (Swedish and Norwegian).

As more and more companies develop their international presence, foreign languages are studied at more advanced levels as business requirements dictate.

Recruitment

A number of medium-size enterprises (starting with 50 employees) employ HR (human resource) managers/specialists or have HR departments. The major manufacturing, retail and financial service companies (banking, insurance) typically also have recruitment specialists or departments. In these cases, recruitment is outsourced only for selecting middle and senior management personnel, as well as specialists in some specific areas, where headhunting may be necessary.

Employee selection at small and micro-companies is performed by the head of the company, by an employee, or with the help of a recruitment company. Foreign companies and investors most often use the services of a recruitment company or publish a job advertisement

in a leading job portal and perform in-house selection. When creating a job advertisement, the requirements prescribed by the Labour Law must be taken into account: it is illegal to discriminate by age, sex, ethnic origin, etc., and the name and contact details of the employer or recruitment company must be clearly stated.

The operations of recruitment companies in Latvia are licensed by the State Employment Agency (*Valsts Nodarbinātības aģentūra* (NVA)). A list of licensed companies is published on the NVA's website www.nva.lv. High quality and value-for-money recruitment services are offered by around ten professional recruitment companies in Latvia, most of them part of international networks. In addition, a number of companies offer staffing and payroll-outsourcing services.

Candidate selection takes 2 - 6 weeks, depending on the nature and seniority of the position.

Additional information at:

www.lm.gov.lv
www.nva.gov.lv

SALARIES IN LATVIA

According to the Central Statistical Bureau of Latvia, the average monthly salary in Latvia in September 2010 was LVL 442 gross (EUR 629 gross), which is around LVL 315 net (EUR 448 net). Salaries in the Riga region are about 10% above the Latvian average, but in other areas they

are 24 - 30% below average, with the lowest being in Latgale. However, the salary gap between Riga and the other regions has tended to decrease in recent years.

Looking at the real situation in the labour market, salaries range from the official minimum monthly salary LVL 200 gross (approx. LVL 145 or EUR 206 net) for unskilled, retail-sector employees up to LVL 8 000 gross (approx. LVL 5 400 or EUR 7 683 net) for executives in the largest companies. For example, the starting level salary in the administrative or customer service sector (secretary, customer service specialist) ranges from LVL 300 - 400 net (EUR 430 - 570 net).

While salaries in 2008 and 2009 decreased considerably by 10 to 50%, in 2010 salaries have remained stable. According to labour market research covering the period from April 2009 to April 2010, salaries in the majority of enterprises remained unchanged and generally there are no plans to change them, at least during the coming year. Nevertheless, an increase in compensation levels is forecast for job categories not sufficiently supplied in the labour market, or for high-level specialists (e.g. IT, manufacturing). A number of companies have introduced compensation schemes comprising fixed and variable parts.

Compared to other EU countries, the general level of compensation in Latvia is the lowest, for example, the level of compensation for unskilled jobs is three to four times lower than in such Western European countries as Germany and France.

Table 5. Average salaries in specific sectors

Job Position	Net monthly wage, EUR		Gross monthly wage, EUR (approximate calculations)	
	From	To	From	To
Support functions				
Secretary	430	640	614.9	915.2
Office Administrator, Personal Assistant	570	850	815.1	1215.5
Accountant	850	1300	1215.5	1859
Chief Accountant	1100	1700	1573	2431
Finance Manager	1100	2150	1573	3074.5
Personnel specialist	570	850	815.1	1215.5
HR Manager	1140	1400	1630.2	2002
Lawyer	850	1150	1215.5	1644.5
Managing Director	2150	2800	3074.5	4004
Customer support/Service specialist	290	500	414.7	715
Manufacturing, commonly				
Production worker	290	500	414.7	715
Shift manager	380	600	543.4	858

Job Position	Net monthly wage, EUR		Gross monthly wage, EUR (approximate calculations)	
	From	To	From	To
Workshop Manager	590	830	843.7	1186.9
Engineer (mechanical, electrical)	480	790	686.4	1129.7
Chief Engineer	780	1150	1115.4	1644.5
Quality Manager	1000	1400	1430	2002
Technical Director	1000	1300	1430	1859
Production Manager/Director	1150	1400	1644.5	2002
Woodworking				
Woodworking technologist	570	850	815.1	1215.5
Purchasing specialist, estimator	600	500	858	715
Metal working, machine manufacturing				
Metal-working technologist	640	850	915.2	1215.5
Production mechanic/Engineer	570	850	815.1	1215.5
Transportation, Logistics				
Logistics specialist	570	920	815.1	1315.6
Forwarder	430	650	614.9	929.5
Logistics manager	710	1000	1015.3	1430
IT				
IT support specialist	480	750	686.4	1072.5
Systems Engineer	1000	1150	1430	1644.5
Systems administrator	700	1150	1001	1644.5
Programmer	700	1150	1001	1644.5
Systems Architect	1150	1400	1644.5	2002
Development Team Leader	1000	1400	1430	2002
Life Sciences				
Technologist, chemistry	640	900	915.2	1287
Technologist, food	640	850	915.2	1215.5
Biotechnology specialist	190 +		170 +	
Scientific researcher	210	700	300.3	1001
Pharmacist	430	780	614.9	1115.4
Health Care				
Nurse	190	640	190	915.2
Social worker	190	384	190	549.12
Physician (doctor)	430	1400	614.9	2002
Dentist	570	1000	815.1	1430
Environmental Technologies				
Environmental engineer	355	850	507.65	1215.5
Hydro-engineer	570	1150	815.1	1644.5
Geo-engineer	570	1150	815.1	1644.5

Source: CVO Recruitment Latvia, 2010

Comments on salaries' table.

Manufacturing, technical support:

Outsourcing is becoming more and more popular in Latvia. Thus, for example, a number of manufacturing companies outsource technical functions – equipment repairs and maintenance are included in service expenditure, and not in the compensation of personnel.

Compensation in the healthcare sector:

Compensation in the state healthcare institutions is fixed by the Cabinet Regulation 'Compensation for healthcare personnel', which prescribes minimum compensation levels for each job category.

The compensation level for each job category is fixed by the head of the healthcare institution, in accordance with the prescribed minimum monthly salary rates for healthcare personnel.

Compensation levels in privately-owned healthcare institutions are typically higher; in addition, healthcare personnel often combine jobs in State and private healthcare institutions.

Scientific Researchers:

In most cases, compensation for scientific researchers in the State sector is defined within the framework of scientific projects. In addition, a number of scientific researchers are master's and doctoral students receiving State grants, not fixed salaries.

Additional information at:

www.lm.gov.lv
www.nva.gov.lv
www.cvorecruitment.lv



Business Infrastructure

TRANSPORT & LOGISTICS

Latvia's transport system provides an appropriate infrastructure base to facilitate the growing trade flows between the EU and Russia/CIS, and to serve the needs of local export/import operators:

- free ports in Ventspils, Riga and Liepaja, with a total cargo throughput of 60.7 million tonnes in 2009, predominantly transit shipments;
- an extensive and functional road network, connecting with both European and CIS road networks, as well as Latvia's ports;
- the shortest route between the EU and the CIS;
- specialized, high-capacity railway corridor linking Latvian ports with Russia and the Far East;
- Riga International Airport — competitive Baltic passenger hub, high-speed cargo distribution centre;
- pipeline systems for transit and distribution of Russian oil/natural gas.

PORTS

As vitally important export and transit-transshipment points for Latvia itself and for several neighbouring countries, the three largest Latvian ice-free ports provide reliable access, 365 days a year. Connections to all other transport infrastructure elements, along with attractive tax-free zone incentives, have resulted in the ports becoming regional centres of industrial activity. Nevertheless, there are still a number of port locations available for businesses, within customs-free zones and with direct sea access. Latvian ports are highly export-oriented, with the proportion of loaded-on cargo being about 95% of all cargo throughput, mostly shipping cargo for transit and export from Latvia. The leading port in terms of unloaded cargo volume is Riga. RO-PAX transport connections with Germany and Sweden are important logistics services available at all three free ports.

Key Elements of Transport Infrastructure

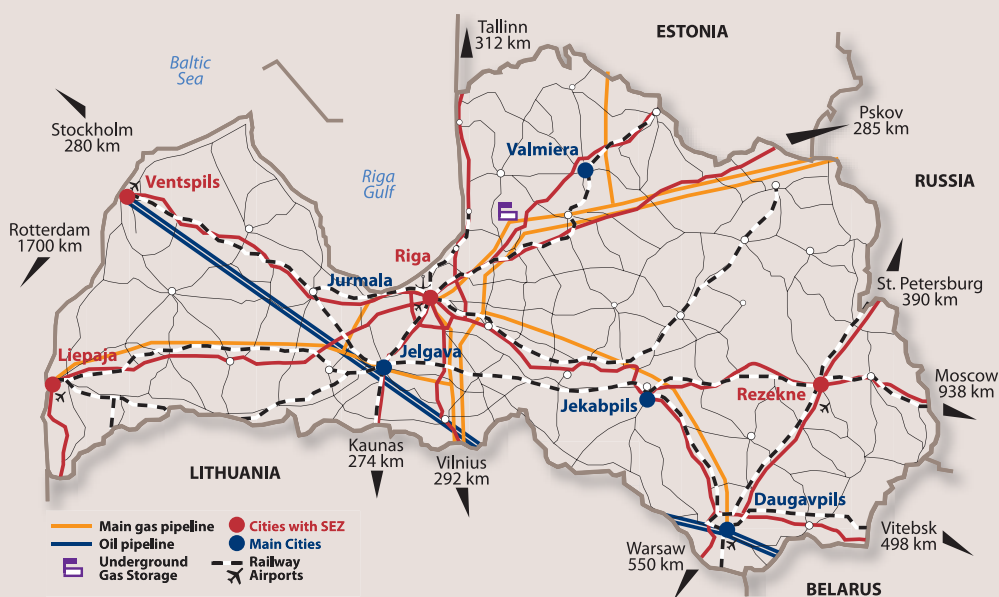


Table 6. Latvia's main ports

	Cargo Throughput ('000 MT in 2009)	Maximum Draught (m)	Port Territory (land; ha)	Specialization and Facilities
Riga	29.7	12.2	1 962	General/container cargo (timber), oil products, dry bulk (coal), RO-RO/RO-PAX
Ventspils	26.6	17.5	2 451.3	Oil products, crude oil, fertilizers, RO-RO/RO-PAX
Liepaja	4.4	9.5	385	General/container cargo (metals), oil products, dry bulk (grain), RO-RO/RO-PAX
Minor ports	1.2	4-7	N/A	General cargo (timber), dry bulk (seafood)

Source: Ministry of Transport, 2010

All the ports are equipped with the required infrastructure – tanks for bulk liquids, terminals, warehouses and cranes, communications infrastructure – and have operating service-providers – stevedores, agents, customs brokers and banks – with a number of internationally recognized names such as *Kuehne & Nagel* and *Maersk Sealine* being a visible part of the service offer.

Additional information at:

www.portofventspils.lv
 www.rop.lv
 www.portofliepaja.lv
 www.transport.lv
 www.sam.gov.lv
 www.lla.lv

ROADS

The total length of Latvia's road network is 73 074 km. The average density of roads in Latvia is 1.132 km per km². The Latvian road system provides direct access to destinations in the east (Russia/CIS) and south west (central/western Europe), and is, through other countries, and/or RO-PAX-capable ports, well connected to northern Europe (Finland and Sweden). Generally,

all roads are fully public and toll-free, as funds for maintenance are collected from excise tax on fuel and vehicle registration fees paid to the Road Traffic Safety Directorate. With financial support from the EU, Latvia has upgraded sections of the *Via Baltica* — the first pan-European transport corridor, connecting Finland and the Baltic States to Poland and western Europe. To divert increasing transport flows from the centre of the capital city, Riga City Council has constructed the *Southern Bridge* over the river Daugava and plans to construct a *Riga Northern Transport Corridor* – a high-speed road crossing Riga from east to west and bypassing the city's historic centre.

Forwarding services is a comparatively developed market with a large number of actively competing operators, including international companies like *Schenker*, *Danzas* and *DFDS Transport*. Transport-freight intensity is increasing rapidly together with the growth in foreign trade and transit operations — international freight volumes passing through Latvia have increased by 58% since 2004.

Additional information at:

www.lvceli.lv
 www.sam.gov.lv
 www.lla.lv

Table 7. Transportation costs & duration to/from Riga (13.6 m standard tilt trailer; EUR*; one way)

	Export	Import	Duration (working days)
Moscow (Russia)	2000	950	3-4
Warsaw (Poland)	400	800	2
Budapest (Hungary)	1100	1700	5
Amsterdam (Netherlands)	1000	1900	3-4
Frankfurt am Main (Germany)	1900	1900	3-4
Mainz (Germany)	1100	1900	3-4
Milan (Italy)	1560	2600	4-5

*22% VAT not included
 Source: Schenker, 2010

RAILWAYS

Latvia possesses a relatively dense railroad network connecting the country to destinations as far as the Russian Far East, wherever the former Soviet railway gauge standard is in operation. There are additional opportunities for trade connection with Japan and Southeast Asia. Currently, Latvian railways mostly serve as a transit trunk-line with as much as 85% of total freight volume being transit from Russia and Belarus to Latvian ports and approximately 35% of freight rolling-stock being tanker-wagons. Movement in the opposite direction — to Moscow and other parts of Russia/CIS is dominated by container cargo.

In order to facilitate trade flows in the north-south direction, it is planned to implement a pan-Baltic railway route, *Rail Baltica*, connecting Tallinn – Riga – Kaunas – Warsaw – Berlin. This project would also serve as the first step in Latvia's transition to European railway-gauge technical standards.

Additional information at:

www.ldz.lv
www.sam.gov.lv
www.lla.lv

AIR TRANSPORT CONNECTIONS

There are three operating airports in Latvia: *Riga International Airport*, *Liepaja International Airport* and *Ventspils Airport*. A fourth airport at Daugavpils (southern part of Latvia) is currently at an early development stage. Nearly 99% of all air passenger and freight transport in Latvia goes through *Riga International Airport*.

Riga International Airport is the leading air transport and transit centre of the three Baltic States, currently serving 19 airlines including Latvia's flag carrier *airBaltic*, low-fare carrier *Ryanair* and European leaders like *Lufthansa*, *Czech Airlines* and *Finnair*. In 2010, *Riga International Airport* received the Emerging Market Airports Award (EMA) in the Best Airport category handling up to five million passengers per year. The companies mentioned and others ensure fast and reliable direct travel from the recently reconstructed *Riga International Airport* to more than 80 destinations in Asia and Europe, including Helsinki, Stockholm, Copenhagen, Berlin, Frankfurt and London, all of which provide further connections to transcontinental air routes. The increase in the number

of carriers and accession to the EU has resulted in unprecedented growth of passenger numbers by more than 0.5 million each year, with the number of flights annually increasing from 19 504 in 2003 to 60 087 in 2009. This makes *Riga International Airport* the most rapidly developing airport hub in the whole of Europe. The number of passengers using the airport in 2009 reached 4 million and is predicted to exceed 4.5 million in 2010. *Riga International Airport* is planning the construction of new terminals to continue its current growth and increase passenger-handling capacity.

The countries with direct flights from Riga include Austria, Azerbaijan, Belgium, Belarus, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Greece, Ireland, Italy, Lithuania, Netherlands, Norway, Poland, Russia, Spain, Sweden, Tunisia, Turkey, United Kingdom, Ukraine, Uzbekistan, Hungary and Egypt.

The air cargo and/or express package services of international providers like *SAS Cargo*, *Lufthansa*, *Fed Ex*, *DHL*, *UPS* and *TNT* ensure one-day delivery within Europe and two days for the rest of the world.

Additional information at:

www.riga-airport.com
www.liepaja-airport.lv
www.airport.ventspils.lv
www.sam.gov.lv
www.lgs.lv
www.lla.lv

PIPELINE SYSTEMS

The pipeline system in Latvia provides transport and storage of oil, oil products and gas. The total lengths of oil and oil-product pipelines within Latvia are 437 km and 329 km respectively. They connect oil extraction and refinery plants in Lithuania and Russia/CIS, the nearest being in Polock (Belarus), to Latvia's ports. Connected to the Russian pipeline system, pipeline management company *LatRosTrans* provides a competitive alternative to railway transport using equipment produced by world industry leaders like *Siemens* and *Schneider* to guarantee the maximum environmental and operational safety of the main pipelines.

Additional information at:

www.latrostrans.lv

UTILITIES

A number of Latvia's utility services are still state-owned or corporate monopoly operations. In order to ensure reasonable pricing in these areas, the Public Utilities Commission of Latvia, whose responsibilities include utilities, telecommunications, and post and railway services, regulates the tariff policies of monopoly utility providers. Also, certain utility sectors are being liberalised by opening markets to other service providers.

Additional information at:
www.sprk.gov.lv

GAS

Latvia is endowed with a unique natural resource — the Incukalns Gas Reservoir, which is the largest natural gas-storage reservoir in Europe with a capacity of approximately 4.4 billion m³. As a result, the country is in a very favourable position in terms of gas supply costs, also providing gas storage for the two other Baltic States and the western border areas of the Russian Federation. The reservoir enables the operator *Latvijas Gāze*, owned by *E-On* and *Gazprom*, to overcome the problems arising from seasonal demand fluctuations and to more effectively utilise existing gas pipeline networks.

In addition to supplying the domestic market, natural gas in Latvia is used in heat generation, power generation, the manufacture of construction materials, agriculture, the food industry and many others. *Latvijas Gāze* supplies natural gas to industrial clients through its centralized gas supply network, also carrying out and financing engineering and installation works, or parts thereof, for the establishment of new connections.

Additional information at:
www.lg.lv

ELECTRICAL POWER

State-owned *Latvenergo* provides about 95% of all the electricity generated in Latvia as well as ensuring its import, transmission, distribution and supply to consumers. The company operates the whole electrical energy cycle from power generation (combustion and hydro-electric plants) through to distribution to substations and user networks. More than 100 independent producers, operating small-capacity hydro-electric plants, wind generators or heat and electricity co-generation plants, produce a very small proportion (approximately 1%) of Latvia's electricity. All the same, 'new energy' generation is growing substantially and is expected to be of increasing importance in the future.

Connection of a new facility to the electricity network can be carried out by *Latvenergo*, or by any other licensed electrical-engineering supplier. Currently, the monopoly position of *Latvenergo* is weakening and customers can choose to buy electricity from an alternative market participant *Enefit*.

Additional information at:
www.latvenergo.lv
www.enefit.lv
www.vidm.gov.lv

DISTRICT HEATING & WATER SUPPLY

District heating and water supply services are generally provided by separate operators in each municipality, however, where necessary or more convenient, any company is free to construct its own system as long as it meets existing technical/environmental regulations. The municipalities mostly own local operators, but some have been privatised and have attracted foreign investors.

WASTE DISPOSAL

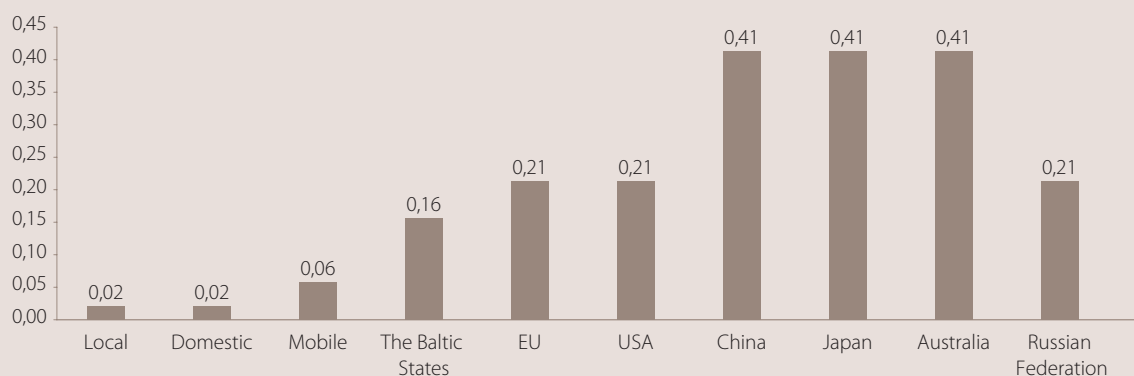
Several local and regional waste management companies throughout the country provide general waste disposal services. The waste produced in Latvia is recycled both locally and in foreign countries. Several facilities exist for the recycling of metal, glass, paper and polyethylene. The most modern polyethylene recycling facility in the Baltic States is located Latvia. Several types of hazardous waste (car tyres, oil and oil filters) are recycled in Latvia. Electronic and electrical equipment are collected and transported abroad for recycling. There are also installations for hazardous waste incineration, mercury recovery from luminescent lamps, water-oil separation facilities, incinerators of oil- and medical-waste, and installations for disinfecting medical waste.

Additional information at:
www.vidm.gov.lv
www.zalais.lv

TELECOMMUNICATIONS

Once lagging behind in telecoms infrastructure, Latvia secured major 'hard' investment after regaining independence in 1991 when it concluded a privatisation deal with *Tilts Communications* (now owned by Finland's *Sonera Holding B.V.*) who became a minority shareholder (49%) in national telecommunications operator *Lattelecom*. The country is now extensively equipped with digital communications networks. Since 1 January 2003, the fixed telecommunications sector has been

Indicative telephone call tariff, 2010 (lowest available, peak EUR/min, including VAT)



Source: Lattelecom, LMT, Tele 2, Bite, 2010

open to competition, thus shortening *Lattelecom's* period of monopoly rights. New participants have entered this sector of the telecommunications market and are offering their services: licences to operate in this sector have been issued to many companies. The biggest of them are *CSC Telecom, Baltkom, Telecom Baltija, Latvijas dzelzceļi* and *Izzi*.

To date, telephone line digitalization has reached 90% nationally. Other advanced fixed-voice and data-transmission services offered by *Lattelecom* include the leasing of digital lines, ISDN, LANs and ADSL. *Lattelecom* currently provides the fastest internet connection in Europe and one of the leading connections by download speed in the world, with maximum speed up to 500 Mbit/sec. The *UltraDSL* package also includes a number of additional services such as conference calls, call waiting and number detection.

Internet services ranging from simple dial-up or radio links to optical broadband lease-line connections are available from several hundred ISPs. International connections are provided by high-capacity, broadband optical-network links to Estonia, Lithuania, Russia and Sweden. WiFi, GPRS and more recently, 3G services have been launched in Latvia. Currently, public wireless internet hotspots are available in almost all public areas in Latvia.

There are three mobile operators – *LMT, Tele2* and *Bite* – with almost 100% of Latvia's population being subscribers and an additional number utilising pre-paid cards. GSM network coverage of the mobile operators is as much as 99% of Latvia. The mobile operators offer a wide range of data-transmission services – high-speed 3G and GPRS data transmission and MMS. 3G is one of the fastest growing services both for Latvian mobile operators and on-line media with approximately 0.5 million users in 2010. *LMT, Tele2* and *Bite* all offer services in UMTS-system networks.

Additional information at:

www.sam.gov.lv
www.lattelecom.lv
www.baltkom.lv
www.lmt.lv
www.tele2.lv
www.bite.lv
www.triatel.lv

REAL ESTATE

As a country with a relatively low density of population, Latvia can provide a range of location choices for both industrial and office operations. There are a number of vacant factory buildings in all the largest cities, along with historic city centres that are gradually developing new functions, evolving from residential into commercial, entertainment and shopping areas. In addition to the availability of individual properties, a number of business-hosting parks have been established or are being developed for different types of tenants.

The first greenfield industrial territory, *Riga Industrial Park* (www.rip.lv), was established in 1998. *Riga Industrial Park* offers developed infrastructure in line with European standards, tailor-made warehouses, offices and production units with connections to all necessary utilities and infrastructure just eight kilometres (or a ten-minute drive) to the east of central Riga.

The largest developer and manager of industrial parks in Latvia is *NP Properties* who have eight industrial parks with a total area of 150 ha in Riga, Olaine, Jelgava, Salaspils, Rezekne and Daugavpils. (www.industrial-park.lv). Their success story is based on acquiring large, vacant factories, the complete or partial renovation of buildings, and attracting foreign companies to set up their businesses in Latvia by providing an advantageous business environment and an extensive range of services. It is also popular for local companies to launch their

Table 8. Average commercial costs (EUR/m² per month)

Average commercial rents , EUR/m ²			
	Riga city	Riga suburbs	Other cities
Offices	4-16	4-16	3-15
Retail	5-40		3.5-25
Modern warehouse/industrial	2-4	2-5	2-4
Average land prices, EUR/m ²			
	Riga city	Riga suburbs	Other cities
Commercial-use suburban land	400-1500	50-100	30-100
Greenfield land plots	10-50	10-50	10-50

Source: Ober-Haus Real Estate Market Review, 2010; Colliers International Real Estate Market Review, 2010; Latio Overview of retail trade premises in Latvia's largest cities, 2010;

businesses in a modern and safe business environment like the *Nordic Industrial Park* and *Nordic Technology Park* territories.

Some industrial parks have been established and designed for specific industrial branches or for the large-scale needs of particular tenants. For example, *Business Park Ogre* (www.bpogre.lv), developed as a new industrial park in Ogre, was specifically designed for the Norwegian SME sector.

The majority of Latvian industrial parks are continuing to expand by constructing new or renovating out-dated premises. Experience shows that business and industry is also moving to other cities and regions of Latvia.

The largest industrial and business parks being developed in Latvia are:

- NP Industrial Village, Salaspils (Riga region);
- NP Rezekne Business Park, Rezekne (southeast Latvia);
- Granita Street Industrial Park (Riga);
- Business Park Vega (Riga Free Port);
- Karosta Industrial Park, Liepaja (southwest Latvia);
- Pulvera iela Business Park, Liepaja (southwest Latvia);
- Pumac Industrial Park, Liepaja (southwest Latvia);
- Daugavpils Industrial Zone, Daugavpils (southeast Latvia);

- Timber-processing Industrial Zone, Jekabpils (southeast Latvia);
- Ventspils Industrial Park, Ventspils Free Port (northwest Latvia);
- Ventspils High-tech Park (northwest Latvia).

For greenfield projects, there are no barriers to using the services of local real estate agents and construction companies. The construction services market in Latvia is very competitive with a number of local and international players like *Constructus*, *NCC Konstrukcija* and *PEAB*. The real estate business is also well developed and competitive, featuring companies such as *Latio*, *Ober-Haus*, *Arco Real Estate*, *Re&Solution* and *Colliers International*.

Additional information at:

www.colliers.lv
www.ober-haus.lv
www.latio.lv
www.arcoreal.lv
www.resolution.lv



Operating Environment

FORMS OF BUSINESS

The main forms of business stipulated in Latvia's Commercial Law are individual merchants, limited liability companies, joint-stock companies and partnerships.

Individual merchant

Natural persons are obliged to register as an individual merchant (*komersants*) with the Commercial Register if the annual turnover from their economic activities exceeds LVL 200 000 (approx. EUR 284 575) or the economic activities performed conform to those of a commercial agent or a broker, or the yearly turnover from performed activities exceeds LVL 20 000 (approx. EUR 28 457) and the natural person provides employment for more than five employees. The whole of individual merchants' property is liable in terms of meeting their obligations.

Limited liability company

Limited liability companies (LLC) are closed business entities whose equity capital consists of the total amount of the par value of the shares, which cannot be traded publicly. Limited liability companies may be established by one or more natural or legal entities. Shareholders may simultaneously be the only member of the Board and the only employee. Permanent presence of shareholders in Latvia is not required, although the board must be reachable at the address of the registered office. The capital of a LLC is divided into shares and the liability of shareholders is limited to their investment in share capital. The minimum share capital of a LLC is LVL 2 000 (approx. EUR 2 845), but a LLC may have less share capital if it has no more than five members (all individuals) and certain conditions stipulated by the Commercial Law are met. Share capital can also be paid in the form of tangible or intangible property. Where the total value of property (tangible or intangible) contributions does not exceed LVL 4 000 (approx. EUR 5 691), and total property

contributions are less than 50% of the equity capital of a company, the valuation of the property may be made by the founders. The administrative institutions of a LLC are the shareholders' meeting and the board of directors, also the supervisory council (if such has been formed). According to the Commercial Law, only shareholders' meetings may:

- amend the articles of association;
- increase or reduce share capital;
- elect or recall members of the council;
- elect or recall members of the board of directors;
- approve annual accounts and the distribution of profits;
- elect and recall auditors, LLC controllers and liquidators;
- perform other activities stipulated by the Commercial Law.

The executive body of a LLC is the board of directors whose main duty is to submit quarterly reports to the council on the activities and financial status of the LLC.

Joint-stock company

Joint-stock Companies (JSC) are business entities whose equity capital consists of the total amount of the par value of shares in the company's stock. Joint-stock companies can be closed or open with shares in public circulation. Minimum statutory capital for JSCs is LVL 25 000 (approx. EUR 35 570). JSCs performing the activities of banks, insurance companies or currency exchange require a higher amount of statutory capital. JSCs can issue ordinary and preference shares which can grant shareholders rights to receive dividends, rights to receive a liquidation quota and voting rights at shareholders' meetings.

JSCs are managed by shareholders' meetings, supervisory councils and boards of directors. Only shareholders' meetings may make decisions concerning:

- annual accounts;
- use of the profit from previous year's activities;

- election and recall of council members, JSC controllers and liquidators;
- the bringing of actions against members of the board of directors, the council and the auditor or withdrawing actions against them, also the appointment of representatives to maintain actions against council members;
- amending articles of association;
- increasing or reducing equity capital;
- the issuance and conversion of a JSC's securities;
- the remuneration for council members and auditors;
- termination of activities or their continuation or reorganisation;
- the general principles and criteria for determining the remuneration for board and council members.

The supervisory council represents the interests of shareholders between shareholders' meetings; it appoints the board of directors and supervises its activities. The board of directors is the executive institution of JSCs which supervises and manages their activities. Boards of directors consist of one or more members, but if a JSC is publicly traded, the board of directors must have at least three members.

Partnership

A partnership is a business entity in which two or more persons (members) have united, on the basis of a partnership agreement to perform commercial activities utilising a joint company name. The Commercial Law provides for two forms of partnership: general and limited partnerships. Both can be established by two or more persons. The main difference between the two forms is that all persons establishing a general partnership have unlimited liability for the partnership's debts. On the other hand, limited partnerships are established by limited and unlimited partners, where the liability of limited partners is limited to the amount of capital contributed. Partnerships are established by partnership agreements and there are no requirements for minimum capital. Partnerships' profit or losses are distributed at the end of the year in proportion to the amount of capital contributed by partners.

Branch and Representative office

According to the Commercial Law, local and foreign companies may establish branch offices in Latvia. A branch is an organisationally independent part of a company that can carry out economic activities, but is not treated as a legal entity. A branch is subject to the same reporting obligations as registered companies, and the head office of the branch is fully liable for activities carried out by the branch.

Representative offices, similar to branches, are not independent legal entities. Representative offices cannot perform economic activities and their functions are limited to market research, promotion of the parent company and other limited marketing activities.

SETTING UP A COMPANY

All companies must be registered in the Commercial Register. For companies to achieve legal status, their founders shall prepare and submit to the Register of Enterprises a foundation agreement and articles of association, together with receipts that confirm payment of registration duty and for the publication of an announcement in the official newspaper, *Latvijas Vēstnesis*. Registration duty depends on the chosen form of business, for JSCs it is LVL 250 (approx. EUR 355), for LLCs it varies from LVL 15 to LVL 100 (approx. EUR 21 to EUR 142), but for branches it is LVL 20 (approx. EUR 28). To register partnerships, the parties shall submit an application for registration and pay registration duty (LVL 100 (approx. EUR 142)) and for the publication of an announcement in the official newspaper (LVL 24 (approx. EUR 34)). Before applying to the Register of Enterprises, companies must pay at least 50% of subscribed capital for LLCs and at least LVL 25 000 (approx. EUR 35 570) for JSCs, the remaining subscribed capital must be paid within one year of the registration date in the Commercial Register. The Register of Enterprises undertakes to review applications and register companies within three days or within one working day (if a three times larger fee is paid).

ENTRY, WORK AND RESIDENCE PERMITS

According to the Immigration Law, foreign nationals are entitled to enter and reside in Latvia if they have valid travel documents. If foreign nationals wish to reside in Latvia for more than 90 days within a 6-month period, they must obtain a visa or residence permit. Since accession in the EU, citizens of other EU Member States do not require visas or a residence permits, but must obtain a registration card from the Office of Citizenship and Migration Affairs if their stay in Latvia exceeds 90 days.

Visas

Since 21 December 2007, Latvia has been a member of the Schengen Agreement, therefore it is possible to travel to other Schengen countries with a Schengen visa issued in Latvia. Foreign nationals are entitled to request visas if they:

- have a valid travel document;
- have the financial resources necessary to reside in their destination country;
- submit documents substantiating the purpose of entry and stay and the place of stay, or have an invitation or request;
- have a valid health insurance policy.

An invitation is mandatory if a natural or legal person in Latvia is considered to be an employer in accordance with the Law on State Social Insurance and they intend to employ a foreign national by entering into an employment contract or a work-performance contract. However, foreign nationals who wish to establish employment relationships or become self-employed must have a work permit.

Work permits

Work permits are issued by the Office of Citizenship and Migration Affairs on the basis of visa or residence permits. If employers intend to employ a foreign national, they must register a job vacancy with the State Employment Agency (SEA) at least one month before applying to the SEA for approval of invitations for visas or sponsorship for residence permits. Foreign nationals must receive separate work permits if they will work for more than one employer or in several positions. Where the employment of foreign nationals relates to short-term stays in Latvia that do not exceed 90 days in a six-month period, work permits can be issued in accordance with the validity of visas.

Residence permit

Residence permits allow foreign nationals to stay in Latvia temporarily or permanently for periods exceeding 90 days in a six-month period. Residence permits may be requested by self-employed persons, members of the boards of directors or supervisory councils of companies registered in the Commercial Register, persons authorized to represent foreign companies in branch activities and in other situations prescribed in the Immigration Law. Since April 2010, temporary residence permits may be requested by foreign nationals who have invested at least LVL 25 000 (approx. EUR 35 571) in the equity capital of a capital company and, during a financial year, the capital company pays at least LVL 20 000 (approx. EUR 28 457) in taxes or has acquired real estate worth at least LVL 100 000 (approx. EUR 142 287) (Riga, Riga planning region or cities), LVL 50 000 (approx. EUR 71 144) (in regional areas), or has made subordinated capital investments of at least LVL 200 000 (approx. EUR 284 575) in a Latvian credit institution.

REAL ESTATE ACQUISITION PROCEDURES AND RESTRICTIONS

Latvian legislation provides no restrictions on the acquisition or transfer of ownership rights to real estate in cities for citizens of Latvia, citizens of EU Member States and companies in which more than 50% of equity is owned by citizens of Latvia or EU Member States or by natural or legal persons from countries with which Latvia has entered into international agreements on the promotion and protection of investments. Foreign nationals from third countries are subject to restrictions on the acquisition of land in State border zones, specially protected areas and agricultural or forest land.

Acquisition of real estate in rural areas

The Law on Land Privatisation in Rural Areas states that transactions may only be conducted with land which has been recorded in the Land Register. Agricultural land only can be acquired by citizens of Latvia, public stock companies if the shares thereof are quoted in the stock exchange or companies registered in the Register of Enterprises of Latvia if:

- more than half of share capital belongs to citizens of Latvia, or;
- more than half of share capital belongs to natural or legal persons from countries with which the Republic of Latvia has entered into international agreements on the promotion and protection of investments.

As from 1 May 2011, citizens of EU Member States and legal persons registered in EU Member States will be able to acquire agricultural land under the same conditions as citizens of Latvia. Until then, citizens of EU member states can acquire agricultural land if they have been actively engaged in agricultural activities in Latvia for three years.

If the said persons wish to acquire ownership of land, they must submit an application to the parish council (municipality, city council) in whose territory the relevant land is located, indicating the purpose of future land use. Parish councils (municipality, city council) shall approve acquisition of land within 20 days.

Transfer of rights to real estate

Each real estate transaction involving changes in ownership rights must be registered in the Land Register which stores information regarding the legal status of real estate. Registration of the transfer of real-estate ownership rights is done by submitting registration applications signed by both seller and purchaser. Before registration with the Land Register, the owner must settle any real-estate tax debt on the property and pay stamp and state duties (see Section *Real Estate Tax*). Applications for transfer of real-estate rights are reviewed in ten days.

PROTECTION OF INTELLECTUAL PROPERTY

Latvian legislation provides four main instruments for protecting intellectual property – patents, trademarks, designs and copyrights. All laws regarding the protection of intellectual property are harmonized with EU legislation and international conventions.

The institution implementing State policy on the ensuring of industrial property rights and making decisions on the granting of patents or the registration of trademarks, designs or additional protection certificates is the Patent Office. It maintains official State registers of patents, trademarks, registered designs and certifies individuals to act as intermediaries in the registration of intellectual property.

The rights to use intellectual property can be acquired in the form of licences or licence agreements. The owner of intellectual property is entitled to transfer ownership rights to another person together with a company or separately from it.

Patents

The rights of inventors and patent holders are protected by the Patent Law. According to the said law, only new inventions with industrial application can be protected by a patent in any field of technology. Patentable inventions may be devices, methods, substances, combinations of substances, or biological materials. The inventor, his successor or his employer own the exclusive rights to the patent, which prohibits third persons from producing, distributing or using patented products or methods. Exclusive rights are valid for a maximum of 20 years. The rights based on patents or applications have the same legal status as the rights to movable property and patent owners are entitled to grant other persons rights to utilise the patent, partly or fully, by means of licensing agreements.

Persons wishing to patent an invention must file a patent application with the Patent Office. Single patent applications can only request a patent for an invention or a group of inventions with a common purpose. The execution date of a patent is the date the application was submitted if all requirements were met. The Patent Office will grant the patent as soon as possible for 18 months from the date of the application. Within nine months of the publication of the notification regarding the granting of a patent, persons may submit a case against the granting of the patent, to be examined within three months.

Disputes concerning patents are examined by courts according to the same procedures as disputes regarding movable property.

Trademarks

The protection of trademarks and trademark registration is regulated by the Law on Trademarks and Geographic Indications. According to the said law, trademarks can be words, graphics or three-dimensional objects, as well as any combination of the said elements. The rights to trademarks can be acquired by any natural or legal person by registering the trademark with the Patent Office. Within three months of submitting trademark-registration applications, the Patent Office accepts an application for expert-examination after which registration is approved or rejected. After registration and publication of a trademark, the Patent Office shall issue the owner a trademark-registration certificate. Trademark registration is valid for ten years and can be renewed indefinitely for subsequent ten-year periods. Any case opposing trademark registration can be submitted within three months of the publication of a trademark. A trademark registration may be revoked by a court if the trademark has not been actually used for a period of five successive years in connection with the goods and services for which it is registered. Applications for international and Community registration of trademarks can be submitted to the Patent Office.

Designs

According to the Law on Design, legal protection is granted to a design if it is new and has individual character. To establish exclusive rights to a design and prohibit other persons from using the design, its owner must register the design with the Patent Office by submitting an application for registration. If the submitted design meets the definition of a design, the execution date of the design is determined to be the application submission date. The registration of a design is valid for five years and can be renewed for a maximum period of 25 years. Within three months of the granting of legal rights to a design, any person can submit a case opposing the registration of the design. International design registration has the same legal status as domestic registration.

Copyright

Copyright on works of literature, science, art, design, photographic works and other works of authors is protected by the Copyright Law. Copyright belongs to the author as soon as a work is created without any registration or other formalities. The copyright to works of authors created while authors are in an employment relationship belong to the author, with the exception of computer software. Authors have exclusive rights to publish, distribute, reproduce and take any other actions related to their work. In certain cases prescribed in the Copyright Law, for example, for educational, research or judicial purposes, the works of an author can be used without infringing the copyright. Copyright is in effect for the entire lifetime of authors and for 70 years after their death. Neighbouring rights for performers, recording producers, film producers and broadcasting organisations are valid for 50 years. Copyright protection can be conducted by a collective management organisation formed by authors. Where copyright is infringed, authors may enforce their rights in court and seek compensation for any losses and moral damage incurred.

REGULATION OF COMPETITION, MERGERS AND ACQUISITIONS

Foreign and local companies commencing business or involved in reorganisation (merger or acquisition) must comply with the corresponding provisions of the Competition Law, the Commercial Law and the Law on Corporate Income Tax. Since Latvia acceded to the EU in 2004, the Competition Law and the national competition authority – the Competition Council – have operated in accordance with EU regulations on mergers and acquisitions.

Competition

According to the Competition Law, unfair competition is actions infringing legislative acts and creating restrictions on or distortion of competition through the imitation of

goods produced or sold by another market participant, the spreading of false, incomplete or distorted information regarding other market participants, or other activities hindering competition.

The protection and development of competition in Latvia is performed by the Competition Council, whose main tasks are to:

- monitor observance of the prohibition against the abuse of dominant positions and prohibited agreements by market participants;
- monitor observance of the Advertising Law;
- examine submitted notifications regarding agreements between market participants and take decisions in respect of them, and;
- restrict market concentration.

The Competition Council has the right to:

- carry out market supervision;
- conduct investigations of competition violations;
- provide opinions regarding the conformity of market participants' activities;
- submit pleadings, applications and complaints to courts.

According to the Competition Law, agreements between market participants which restrict or distort competition in Latvia, such as agreements regarding price- and tariff-fixing or non-participation in tenders or auctions, etc., are prohibited. In cases of prohibited agreements, the Competition Council has the right to impose fines on each participant of up to 10% of their net turnover for the previous financial year. The decisions of the Competition Council are binding on market participants and market participant groupings.

Any market participant who is in a dominant position is prohibited to refuse to enter into transactions with other market participants or restrict the amounts of production, technical development of the market, or abuse its dominant position in any other way. The amount of fines imposed in cases of abuse of dominant market position is 10% of net turnover for the previous financial year (0.005 - 0.2% in retail).

Mergers and acquisitions

The merger and acquisition of companies is regulated by the Commercial Law which prescribes procedures for reorganising companies. Companies involved in a reorganisation process must enter into a reorganisation agreement, approved by a certified auditor, stating all the parties involved and all the consequences of the reorganisation, and prepare a reorganisation prospectus (optional for LLCs and partnerships). Every company involved in a reorganisation must publish an announcement to creditors in the official newspaper *Latvijas Vēstnesis*. Three months after publishing the announcement, companies must submit applications to the Commercial Register providing the reorganisation

agreement and other documents stipulated in the Commercial Law. After the reorganisation is recorded in the Commercial Register, the property of the acquired company is considered to be transferred to the acquiring company and the acquired company is deleted from the Commercial Register and regarded as liquidated. Shareholders of the reorganised company who did not agree to the reorganisation can request that the acquiring company redeem their shares as compensation.

As prescribed in the Competition Law, where the combined turnover within Latvia for the previous financial year of the participants in a merger or acquisition exceeded LVL 25 million (approx. EUR 35.57 million) or the total market share of the participants in the merger in the particular market exceeds 40%, participants must submit a full-form merger notification to the Competition Council. Within one month of receiving the notification, the Competition Council will decide whether to permit or prohibit the reorganisation.

In cross-border merger cases, the reorganisation agreement must state:

- the types of capital companies involved in the cross-border merger;
- data regarding the valuation of assets and liabilities to be transferred to the acquiring company;
- a report on the commercial activities of the capital company upon which the provisions for the cross-border merger are based.

If the reorganised company is registered in Latvia, it must submit a document issued by the Commercial Register Office of another Member State attesting that the acquired company has performed all the necessary actions for the completion of the cross-border merger, and vice versa.

In reorganisation cases (domestic or cross-border), the determination of taxable income shall not take into account the results of the revaluing of asset and liability items transferred to the acquired company and the results of the revaluing of fixed assets shall not be taken into account in the residual value of fixed assets received by the acquiring company if:

- the companies involved in the reorganisation are resident in Latvia; or
- the acquiring company is resident in a EU Member State, the acquired company is resident in Latvia and the assets and liabilities after the transfer are not applicable to the permanent establishment of the acquiring company outside Latvia; or
- the companies involved in the reorganisation are resident in EU Member States and the assets and liabilities after the transfer are applicable to the permanent establishment of the acquiring company in Latvia.

PROTECTION OF THE RIGHTS AND INTERESTS OF INVESTORS

Rights of shareholders

The rights of investors in Latvia are protected by the Commercial Law, the Civil Law and the Law on Judicial Power. Shareholders exercise their rights in annual shareholders' meetings. Shareholders who jointly represent not less than one twentieth of the equity capital of a company can request extraordinary shareholders' meetings. Any shareholders can bring an action in court to revoke decisions taken by shareholders' meetings if they were unlawfully prevented from participating in the meeting or from familiarising themselves with relevant information, or significant violations have occurred in making such decisions.

Shareholders (the supervisory council in JSCs) elect a board of directors. The board of directors acts as the executive body of the company and the members of the board are jointly liable for losses incurred as a result of their actions. Boards of directors are obliged to inform shareholders about the company's financial results quarterly and about any circumstances that can affect the company's activities. Shareholders can request internal audits of activities and the economic condition of companies, as well as elect internal controllers to examine companies at the request of shareholders. Shareholders can instigate court proceedings against members of the board of the directors on the basis of a simple majority vote of shareholders or at the request of a minority of shareholders representing at least one twentieth or LVL 50 000 (approx. EUR 71 144) of the equity capital of a company. Investors can defend their rights and instigate court proceedings against persons who have caused harm to the property or rights of the investor by unlawful actions or wrongful intent, in accordance with the Civil Law.

Latvian court system

The Law on Judicial Power prescribes that all court judgments have the force of law after the expiration of their appeal or protest deadline. The Latvian court system is structured in three levels – 1) district (city) courts operate as first-level courts for civil, criminal and administrative matters; 2) six regional courts operate as first-instance courts for more complicated cases and appeal courts for cases adjudicated by district courts; 3) the Supreme Court, composed of the Senate, the Civil Matters Panel and the Criminal Matters Panel, is the cassation instance for all matters previously adjudicated by district (city) courts and regional courts, and the appeal court for cases adjudicated by regional courts.

Protection of investors

Rights regarding investment made by foreign investors in Latvia are covered by bilateral agreements on the promotion and protection of investments. The agreements state that all disputes between investors and the contracting state must be resolved through negotiation. Where disputes are not resolved by negotiation, investors can hand over the dispute to a competent court in the country where the investment was made or to any *ad hoc* arbitration tribunal established under UNCITRAL or ICSID.

Additional information at:

www.pmlp.gov.lv
www.zemesgramata.lv
www.ficil.lv
www.tiesas.lv
www.mfa.gov.lv
www.ur.gov.lv



Financial Environment

FINANCIAL ENVIRONMENT

Central Bank and the Commercial Bank Sector

The central institution of Latvia's financial environment is the Bank of Latvia – Latvia's central bank. According to the Law on the Bank of Latvia, the bank's main goal is to execute Latvia's monetary policy and to maintain price stability nationally. The Bank of Latvia also ensures the operation of the Credit Register. The bank grants legal persons registered in the Enterprise Register (except credit institutions) licences for the purchasing and selling of foreign currency in the form of business activities and controls compliance with its established procedures for purchasing and selling foreign currency.

With the intention of becoming a fully-fledged member of the Economic and Monetary Union and to introduce the *euro* as the national currency, Latvia has pegged its national currency – the Latvian *lats* (LVL) – to the *euro* (rate - EUR 1 = LVL 0.702804).

Financial and capital markets are regulated by the Financial and Capital Market Commission (FCMC), established in 2000 to sustain stability and development, and to promote free competition within financial markets. The FCMC has the authority to monitor and regulate all participants in financial and capital markets (investors, credit institutions, insurers, stock exchanges, depositories, brokers, etc.).

More than 20 commercial banks and 9 branches of foreign banks operate in Latvia with total assets of approximately LVL 21 billion (2010). Latvia's largest banks represent foreign investors from Sweden (*Swedbank, SEB*), Finland (*Nordea Bank*) and Germany (*DnB Nord Banka*) who make up more than 50% of market share in total assets and account for approximately 64% of issued loans (2009). Only a few of the largest Latvian banks operate as universal credit institutions providing the full range of banking services to private individuals and corporate entities with extensive networks of local branches and ATM terminals. Most banks provide a limited range of services to specific customer groups.

Insurance sector

At the end of 2009, 14 insurance companies were operating in Latvia – four life insurance companies and ten non-life insurance companies, as well as eleven branches of foreign insurance companies. The provision of insurance services and insurance company operations are regulated by the Law on Insurance Companies and the Supervision Thereof.

Stock exchange

The leading institutions operating the securities market in Latvia are NASDAQ OMX Riga and the Latvian Central Depository. Through these two enterprises, market participants are provided with an environment for carrying out transactions with securities, the clearing and settlement of securities' transactions, listing of securities, operating of a central public securities register and a funded pension-fund register. NASDAQ OMX Riga is a part of the NASDAQ OMX Group, Inc., which is the world's largest exchange company. At the end of 2009, NASDAQ OMX Riga listed 35 companies with total market capitalisation of LVL 925.56 million. According to the provisions stipulated by the Financial Instrument Market Law and the rules of NASDAQ OMX Riga, companies that are interested in listing their shares on the main list of NASDAQ OMX Latvian market must meet certain requirements:

- prospectus approved by the Latvian supervisory authority;
- at least EUR 4 million market capitalisation;
- at least 3 years of operation;
- must list at least 25% of share capital;
- financial statements prepared according to IFRS or GAAP standards.

Additional information at:

www.bank.lv
www.nasdaqomxbaltic.com
www.fktk.lv
www.laa.lv



Taxation

GENERAL PRINCIPLES

The Law on Taxes and Duties, adopted on 2 February 1995, determines Latvia's general taxation principles.

This law is applicable generally, unless specific tax laws, such as the Law on Value Added Tax, Law on Corporate Income Tax or any other provide for different rules. If there is a conflict between general principles and specific rules, the specific rules prevail.

According to the Law on Taxes and Duties, duties are imposed either by the State or the municipality. The State is entitled to impose duties on a number of different items. These include vehicles, court applications, notary applications, gambling, changes of identification data, reservation of land in rural areas, transactions with vouchers and bills of exchange, immigration services, business licences/permits, registration of security interests, applications for patents, trademarks or plant protection certificates.

The State taxes are:

1. Personal income tax
2. Social security payments
3. Real estate tax, including stamp duty
4. Corporate income tax, including withholding taxes
5. Value added tax
6. Excise tax
7. Natural resource tax
8. Motorcycle and motor car tax
9. Gambling and lottery tax
10. Customs duties
11. Electricity tax
12. Micro-company tax

PERSONAL INCOME TAX

Pursuant to Latvian legislation, persons are considered to be residents of Latvia for tax purposes, if:

- their permanent place of residence is Latvia, or
- they reside in Latvia for 183 days or longer in any given 12-month period commencing or finishing during a taxation year, or
- they are a citizen of the Republic of Latvia employed abroad by the Latvian government.

Income earned by a Latvian tax resident in any country is taxed in Latvia.

The object of income tax for non-residents is their Latvian-sourced income (tax treaties shall be taken into account for residence purposes), i.e. income attributable to Latvia:

- employment income;
- income from independent professional services;
- directors' fees;
- interest income, except interest from Latvian, European Union (hereinafter – EU), European Economic Area (hereinafter – EEA) or municipality debentures;
- dividends;
- income from payments for intellectual property;
- other income forms listed in the Law on Personal Income Tax.

As of 1 January 2010, the following income is taxable for Latvian taxpayers:

- income from capital other than capital gains (taxable items are dividends, interest income and similar income, income from investment in private pension funds, income from life insurance contracts);
- capital gains (taxable income is determined as asset-disposal price minus asset-acquisition price or liquidation quota minus investment value);
- income acquired from forests – 10%.

Application of international agreements

If a Convention for the avoidance of double taxation and the prevention of fiscal evasion exists, the amount of income tax payable in Latvia may be reduced by the amount of income tax paid in the foreign state, provided that the respective tax payment has been certified by a foreign tax-collection institution.

Non-taxable income

Income tax is not applied to:

- income from agricultural production and the provision of rural tourism services, if it does not exceed LVL 2 000 (approx. EUR 2 845) a year;
- insurance indemnities received from insurance companies;
- other income listed in the Law on Personal Income Tax.

Tax rates

Tax rates are as follows:

- for annually taxed income and salary income: 25%
- for income from capital other than capital gains: 10%
- for income from capital gains: 15%

Income received as salary

Private individuals employed by Latvian-registered enterprises and by enterprises non-resident in Latvia are subject to the standard income tax rate of 25%. Salary includes all income related to labour relations, including fringe benefits, minus a monthly non-taxable amount (LVL 45 (approx. EUR 64)) for employees and LVL 70 (approx. EUR 128) for each of their dependants. Employers must withhold income tax from employees' salaries.

Expenses deductible from personal income

The following expenses are deductible for personal income tax purposes:

- the amount of SSC paid in Latvia and other EU countries;
- expenses for medical treatment, vocational training and obtaining education;
- health insurance premium contributions to insurance companies;
- authors' expenses;
- contributions to Latvian private pension funds or other private pension funds registered in other EU Member States or EEA countries which do not exceed 10% of a person's annual taxable income;
- other expenses listed in the Law on Personal Income Tax.

Non-residents who are residents of other EU Member States or residents of EEA countries who have derived at least 75% of their total income in the taxation year in Latvia, are entitled to apply the same eligible expenditure as residents of Latvia.

Income from property sales

Income from the sale of real estate is not taxable if ownership of the real estate has continued for more than 60 months and the real estate was the person's primary declared place of residence for at least 12 months before the date the sales agreement was concluded.

Individual activity

The income of individuals engaged in self-employed activities is subject to income tax at a rate of 25%. For the purpose of determining income tax on self-employment income, taxable income consists of gross income less eligible expenses.

Tax payers who have registered as performers of economic activities, who do not have employees, may choose to pay fixed income tax (from LVL 25 to LVL 500 (approx. EUR 36 to EUR 712) per year) if their income did not exceed LVL 10 000 (approx. EUR 14 228) in the pre-taxation year.

Self-employed persons performing certain economic activities have the option to pay a monthly patent fee (combined PIT and SSC payment) in the range LVL 30 to LVL 120 (approx. EUR 42 to EUR 171).

Tax returns and terms

Annual income tax declarations for the preceding year are due on 1 April of the current year for personal income tax payers who, during the taxable period (calendar year), have received:

- income from economic activities;
- income from activities performed abroad;
- non-taxable income that exceeds four times the annual non-taxable minimum specified for the taxation year (LVL 1 680 (approx. EUR 2 390) for 2010).

Other Latvian residents may submit PTI declarations within a 3-year period after the taxable period.

Declarations are prepared on a self-assessment basis and may be audited up to three years after the tax became payable.

SOCIAL SECURITY CONTRIBUTIONS (SOCIAL TAX)

The employer deducts 11% from the employee's gross salary as the social security contribution payable by the employee. The employer must also pay SSC equal to 24.09%. The total standard rate of the social security contributions is 35.09%.

A different social security payment scheme is applied for persons who:

- are entitled to a State old-age pension;
- receive a service pension or State special pension as a disabled person;
- are self-employed;
- are private individuals managing real estate;
- are foreign employees of a foreign employer.

Foreign employers not registered in Latvia but having employees working in accordance with employment agreements in Latvia, who are subject to social security in Latvia, must register as insurers in Latvia and pay SSC. With respect to EU citizens, A1 certificates are applicable.

REAL ESTATE TAX

Tax rate

Real estate tax is paid by individuals, legal entities and non-residents that own or hold Latvian real estate, including land and engineering constructions.

The standard real estate tax rate for buildings, land and engineering constructions is 1.5% of the cadastral value. The real estate tax rate for residential houses and apartments not used to conduct business activities varies from 0.2% to 0.6% depending on the cadastral value of the real estate. Additional 1.5% real estate tax is levied on uncultivated agricultural land. The taxation period is a calendar year.

Tax exemptions

Some types of real estate are exempt from real estate tax. For example, exemptions apply to:

- buildings which are utilised only for agricultural production;
- buildings erected or reconstructed for the performance of economic activities for one year, counting from the next month after their commissioning;
- buildings or the parts thereof, which are utilised for educational, health, social care or cultural purposes (except cinemas and video libraries);
- other buildings specified by the Law on Real Estate Tax.

STAMP DUTY

Every registration of title rights with the Land Register resulting from the sale/transfer of property is subject to stamp duty. The amount of stamp duty depends on the type of transfer. For the transfer of property to:

- relatives – 0.5% of the value of real estate, but not more than LVL 1 000 (approx. EUR 1 422);
- other natural and legal persons – 2% of the value of real estate, but not more than LVL 30 000 (approx. EUR 42 686);
- other natural and legal persons as a gift – 3% of the value of real estate, but not more than LVL 50 000 (approx. EUR 71 144).

With respect to the investment of real estate into the charter capital of companies, stamp duty to the amount of 1% of the value of the real estate investment shall be paid, but no more than LVL 1 000 (approx. EUR 1 422).

CORPORATE INCOME TAX

Table 9. Corporate income tax

Corporate income tax rate (%)	15
Withholding tax (%) ^(A)	
Dividends ^(B)	10 OR 0
Interest to related party ^(C)	10 OR 5
Management and consultancy fees ^(D)	10
Royalties ^(E)	15 OR 5
Payments for the use of fixed or movable property in Latvia	5
Gross proceeds of the sale of real estate in Latvia	2
Net operating losses (years)	
Carry back	N/A
Carry forward ^(F)	8

(A) Taxes apply to payments to non-residents

(B) 0% tax applies if the recipient is resident of another EU or EEA country and has a residence statement* approved by the tax authority in the recipient's residence country confirming that the recipient is resident for tax purposes.

*Residence statement – a statement that confirms that the recipient is considered a resident of a EU/EEA Member State for tax purposes, and under the terms of a double tax treaty is not considered to be a resident for tax purposes outside the Community as well as is subject to income tax of the respective Member State, without the option of being exempt. The residence statement issued by the tax authority of the residence country of the recipient of dividends must be at the disposal of the Latvian company prior to the payment of dividends.

Additionally please see Table 12 for withholding tax rates applied to residents of treaty countries.

(C) Interest withholding tax applies only to interest paid to related parties. 5% rate applies to interest paid by Latvian-registered banks to related parties; 5% rate applies to interest paid by other Latvian companies to EU resident related companies**; 10% rate applies to other interest payments (additionally please see transitional period in Table 13).

**Two EU resident companies are considered related, if:

- one company owns at least 25% of the capital or voting rights in another company; or
- 25% of the capital or voting rights of both companies belong to another EU resident company.

(D) No withholding tax applies to residents of treaty countries provided that a residence certificate is obtained prior to the payment of management fees.

(E) The 15% rate applies to copyright royalties (5% between EU-resident related companies starting from 1 July 2009), the 5% rate applies to royalties on other types of intellectual property; (additionally please see transitional period in Table 13).

(F) Losses can be carried forward only if ownership does not change by more than 50% during the carry forward period or, if it does, the primary economic activity of the entity for the next eight taxation years after the change of ownership remains the same as in the two years before the change of ownership.

Taxable income

Resident companies are subject to tax on their worldwide income. Non-resident companies without a permanent establishment in Latvia are subject to tax on their Latvian-sourced income.

Non-resident companies operating through a permanent establishment in Latvia are subject to tax on income derived by the permanent establishment in Latvia, as well as income independently derived abroad by the permanent establishment.

Capital gains

For resident companies and non-resident companies operating through a permanent establishment in Latvia, capital gains are included in their taxable income.

For non-resident companies without a permanent establishment in Latvia, the final withholding tax is imposed on proceeds received from the sale of Latvian real estate or from sale of shares in the company if, in the taxation period of the sale or the taxation period prior to the sale, 50% or more of the company's assets consist of real estate located in Latvia. The rate of withholding tax is 2% of gross proceeds from the sale of Latvian real estate or from sale of company shares.

Dividends

Dividends paid out of resident profits being taxed under the Law on Corporate Income Tax are not included in the taxable income of a resident recipient company. The said exemption is not applied if the payer is a company benefiting from a tax holiday.

The taxable income of a Latvian company receiving dividends is decreased by the amount of dividends received from EU and EEA country residents. The taxable income of a Latvian company receiving dividends is decreased by the amount of dividends received from other non-residents if the Latvian company owns at least 25% of the capital and voting rights in the company paying the dividends, however, this provision is not applicable if the company paying the dividend is located in a state or territory which according to Cabinet regulations, is considered to be a low-tax or no-tax state or territory.

Foreign tax relief

Corporate income tax may be reduced by the amount of income tax paid in foreign countries. The reduction may not exceed an amount equal to the tax calculated in Latvia on the income gained abroad. Such paid tax in foreign countries should be confirmed by a foreign tax-collection authority.

Determination of taxable income

Taxable income is the profit or loss before tax reported in a company's profit and loss statement, prepared in accordance with the Law on Annual Accounts and subject to adjustments to annual corporate income tax declarations as specified below:

I. PROFIT (LOSS) SHOWN IN PROFIT AND LOSS STATEMENT:

- *plus: losses from the maintenance of social infrastructure multiplied by coefficient of 1.5;*
- *plus: expenses not directly related to business activity multiplied by coefficient of 1.5, except certain donations;*
- *equals: adjustable taxable income (loss).*

II. INCREASE OF ADJUSTABLE TAXABLE INCOME:

- *total cost of depreciation of fixed assets and written-off intangible assets shown in the annual report;*
- *total amount of maintenance costs, interest and lease payments in respect of representation motor vehicles;*
- *total amount of losses related to disposal of representation motor vehicles;*
- *total amount of penalties comprising penalties imposed on the basis of contracts, tax penalties and monetary penalties;*
- *underpaid amounts of shortage or misappropriation in the companies of which the share capital owned by the State or local governments exceeds 50%, as well as in institutions financed from the budget;*
- *payments to non-residents if no withholding tax is paid, including:*
 - *fees for management and consultancy services;*
 - *interest;*
 - *royalties for intellectual property;*
 - *royalties for usage of property located in Latvia;*
 - *income from sale of real estate situated in Latvia;*
 - *payments to low tax or tax free countries.*
- *60% of amount used for representation expenses;*
- *increase in special reserves for doubtful debts and bad debts (does not apply to credit institutions);*
- *loss on sale of securities (except for losses from securities in public circulation in the EU or EEA or securities which are not sold regularly);*
- *expenditure related to the acquisition in the taxation period of securities in public circulation in the EU or EEA;*
- *interest payments in excess of the admissible amount if thin capitalisation rules are applied;*
- *cost reserves and accruals;*
- *total of payments for illegal production or usage of natural resources;*
- *decrease in the total of the costs incurred from the revaluation of balance sheet items, except for amounts related to changes in foreign currency exchange rates;*
- *compensation paid for tax losses transferred within a group;*
- *compensation received and not reinvested within 12 months for forced loss of land, buildings, their parts and constructions;*

- losses arising from the sale of fixed assets to associated companies or persons related to the company;
- difference between the market value of goods (production, services) and actual value if transactions are between related parties;
- difference between transaction value and market value where transactions are between related parties;
- certain improvement and reconstruction costs;
- insurance premiums paid to non-resident insurance companies for services provided by Latvian insurance companies (except payments made to EU insurance companies);
- payments made by the employer for the benefit of employees into private pension funds in conformity with licensed pension plans and paid in amounts of insurance premiums for employee life insurance (with savings funds) if on the last day of the company's taxation period there is a tax debt;
- certain dividends received from non-residents, as well as from residents subject to special tax reliefs in Latvia.

III. DECREASE IN ADJUSTABLE TAXABLE INCOME:

- total cost of depreciation of fixed assets and intangible investments calculated according to the Law on Corporate Income Tax;
- real estate tax, if previously not included in calculation of taxable income;
- total cost of duties and taxes on gambling and lottery;
- cost of agricultural subsidies;
- decrease in special reserves for doubtful debts in comparison with prior tax period and the total amount of bad debts, if certain requirements defined in the Law on Corporate Income Tax are met;
- increase in the total costs incurred in the revaluation of balance sheet items, except for the amount related to changes in foreign currency exchange rates;
- compensation received for forced loss of land, buildings, their parts and construction, if such compensation is reinvested in the same or similar assets within 12 months of the receipt of such compensation;
- compensation received for the transfer of losses within a group;
- income from badwill in privatisation;
- income from difference between value of privatisation vouchers and the selling price of privatised property for the said vouchers;
- dividends received, if certain requirements are met;
- late payment fees for taxes which are decreased in accordance with the Law on Taxes and Fees;
- computers and other electronic equipment donated to education establishments;
- income from the sale of securities in public circulation in the EU or EEA;
- expenses related to provision of special new work places for employees with physical or mental limitations (in a disability group) if new work places are maintained for employees with physical or mental limitations for at least two years;

- weighted average interest rate for loans in lats applied to non-financial companies multiplied by non-distributed profit from the periods before the taxation year. Non-distributed profit is calculated by adding non-distributed profit from taxation periods beginning after 31 December 2008;
- income from sale of fixed assets if new, functionally similar fixed assets are bought during the 12-month period before or after the sale of the fixed asset;
- decrease of reserves and accruals, if previously included in the profit or loss statement;
- recovered bad debts;
- production costs of books for the National Library.

IV. TAXABLE INCOME

V. LOSSES CARRIED FORWARD, ADJUSTED TAXABLE INCOME, GROUP RELIEF, LOSSES FROM SALES OF SECURITIES IN CERTAIN CASES:

- losses from the sale of securities, other than public securities issued in EU or EEA Member States, may be offset over a eight-year period on a gain in come from the sale of other securities;
- losses may be transferred to another group company only up to the amount not exceeding the taxable income of that company in the same taxable period. Losses incurred during previous taxation years may not be offset within the group.

Tax losses may be carried forward for eight years from the taxation period.

VI. ADJUSTED TAXABLE INCOME

VII. TAX RELIEF:

- corporate income tax paid in foreign countries, but not more than 15% of the foreign source income calculated in accordance with the requirements specified by the Law on Corporate Income Tax;
- tax relief for agricultural companies;
- tax relief for donations is 85% not exceeding 20% of the total amount of tax.

Administration

The tax year is either the calendar year or may differ from the calendar year if so stipulated by a company's charter. That is, the tax year corresponds with the financial year of the company. Generally, the tax year for corporate income tax purposes may not exceed 12 months. However, in the year of incorporation the tax year may last less or more than 12 months, but not more than 18 months.

The annual income declaration must be filed within 30 days of the annual shareholders' meeting, but not later than four months after the year's end. Companies must pay tax advances by the 15th day of each month.

Permanent establishments

Permanent establishments of non-resident companies may not deduct interest, royalties, rent and payments for any services that are paid to the head office.

The taxable income of permanent establishments may be reduced by a part of the acquisition cost of intellectual property, interest and administration costs borne by the parent company, if the said expenses are effectively connected with the permanent establishment.

Expenses for the acquisition of intellectual property, interest and administration costs that are deductible are subject to the appropriate withholding taxes.

Depreciation for tax purposes

Tax depreciation for fixed assets is calculated using the declining balance method. The amount of depreciation for the fixed assets of the taxpayer in the taxation period is calculated from the residual value for each category of fixed asset prior to deduction of depreciation in the taxation period.

See section Tax Incentives for information regarding depreciation rates for corporate income tax purposes.

The acquisition costs of patents, licences and trademarks are amortized according to the straight-line method over five years, but concessions over ten years. Patents, licences and trademarks issued for a term of less than five years or concessions issued for less than ten years can be written off within the term of validity for tax purposes.

See section Tax Incentives for information regarding depreciation of new equipment and intellectual property acquisition costs.

Groups of companies

Relief for losses within a group of companies may be utilised by tax group companies.

The parent company can be either a Latvian resident or a resident of an EEA country or country with which Latvia has concluded a double tax treaty, which, on the basis of an effective double tax treaty, is not also recognised as a resident of another state. To qualify for group relief, the parent must own directly or indirectly at least 90% of the subsidiary's capital rights and the parent-subsidiary relationship must exist for the entire fiscal year.

Notional interest

When determining the taxable income of a taxpayer, profit may be decreased by the amount of notional interest calculated as a multiple of retained earnings of the previous taxation periods which start after 31 December 2008 and the interest rate determined by the Bank of Latvia in the previous taxation period for loans issued to domestic companies.

ANTI-AVOIDANCE RULES

Thin capitalisation rules on interest

No limits exist with respect to the amount of loans received by a company. However, thin capitalisation rules are applicable with respect to the deductibility of interest payments.

For corporate income tax purposes, companies may not deduct interest expenses incurred from payments to Latvian residents and non-residents that exceed the lower of the following two amounts:

- an amount equal to the average amount of liabilities multiplied by 1.2 and the average short-term interest rate determined by the Central Statistics Bureau in credit institutions as of the last month of the tax year;
- the actual amount of interest divided by a coefficient, which in turn consists of $\frac{1}{4}$ of the average liabilities multiplied by the difference between equity and long-term reserves (including similar reserves, which have not resulted from profit distributions).

Thin capitalisation rules do not apply to interest payments for loans from credit institutions and insurance companies of EU/EEA/double tax treaty states and to EU/EEA publicly traded debt securities and from the Treasury of the Republic of Latvia, the Nordic Investment Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the Council of Europe Development Bank and from the World Bank group.

Transfer pricing rules

Latvian legislation provides for an arm's length principle to be followed in all transactions between related parties. The SRS may redefine transactions between related parties and recalculate the tax base if it has grounds to suspect tax evasion.

Methods such as comparable uncontrolled prices, resale prices, cost plus, profit split or the transactional net margin method may be used to assess market prices in transactions between related parties.

The generally accepted practice on transfer pricing issues is based on OECD transfer-pricing guidelines.

WITHHOLDING TAXES

The following table shows withholding tax applicable to dividend, interest and royalty payments to the designated countries. If the non-treaty country rate of withholding tax for a particular class of payment is lower than the rate applicable to the designated countries, the non-treaty rate is applicable.

The non-treaty country rate is determined by domestic legislation.

Table 12. Withholding tax rates

Country	Dividends %	Interest %	Royalties %
Albania	5/10 (a)	5/10 (j)	5
Armenia	5/15 (a)	10	10
Austria	5/10 (a)	10	5/10 (d)
Azerbaijan	5/10 (a)	10	5/10 (d)
Belarus	10	10	10
Belgium	5/15 (a)	10	5/10
Bulgaria	5/10	5	5/7
Canada	5/15 (b)	10	10
China	5/10 (a)	10	10
Czech Republic	5/15 (a)	10	10
Croatia	5/10 (a)	10	10
Denmark	5/15 (a)	10	5/10 (d)
Estonia	5/15 (a)	10	5/10 (d)
Finland	5/15 (a)	10	5/10 (d)
France	5/15 (h)	10	5/10 (d)
Georgia	5/10 (a)	10	10
Germany	5/10 (a)	10	5/10 (d)
Greece	5/10 (a)	10	5/10 (d)
Hungary	5/10	10	5/10
Iceland	5/15 (a)	10	5/10 (d)
Ireland	5/15 (b)	10	5/10 (d)
Israel	5/10/15 (h, i)	5/10 (j)	5
Italy	5/15 (g)	10	5/10 (d)
Kazakhstan	5/15 (a)	10	10
Kirghizia	5/10 (b)	10	5
Lithuania	0/15 (c)	0	0

Country	Dividends %	Interest %	Royalties %
Luxembourg	5/10(a)	10	5/10 (d)
Macedonia	5/10 (h,)	5	5/10 (l)
Moldova	10	10	10
Malta	5/10 (a)	10	10
Morocco	6/10 (m)	10	10
Montenegro	5/10 (a)	10	5/10 (k)
Norway	5/15 (a)	10	5/10 (d)
Poland	5/15 (a)	10	10
Portugal	10	10	10
Romania	10	10	10
Serbia	5/10 (a)	10	5/10 (k)
Sweden	5/15 (a)	10	5/10 (d)
Singapore	5/10 (a)	10	7.5
Slovakia	10	10	10
Slovenia	5/15 (a)	10	10
South Korea	5/10 (a)	10	5/10 (d)
Spain	5/10	10	5/10
Switzerland	5/15	10	5/10
Tadzhikistan	0/5/10 (n)	0/7 (o)	5/10 (d)
Turkey	10	10	5/10
The Netherlands	5/15 (a)	10	5/10 (d)
UK	5/15 (b)	10	5/10 (d)
Ukraine	5/15 (a)	10	10
USA	5 /15(g)	10	5 (d) /10
Uzbekistan	10	10	10
Non-treaty country	10	0/5/10 (f)	5/15 (e)

^(a) 5% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the company paying the dividends.

^(b) 5% of the gross amount of the dividends if the beneficial owner is a company which holds directly at least 25% of the voting power of the company paying the dividends.

^(c) 0% if the recipient of the dividends is a company other than a partnership that holds shares representing at least 25% of the capital and the voting power of the company paying the dividends.

^(d) 5% of the gross amount of royalties paid for the use of industrial, commercial or scientific equipment.

^(e) 5% rate applies to royalties for intellectual property, except royalty for copyrights or neighbouring rights on literary or art works, including films and audio recordings to which 15% applies; 5% rate applies to European Union-related companies if the residence statement is available prior to payment of the royalties.

^(f) 5% rate applies to interest paid by a Latvian-registered bank to related parties. 10% is applicable to interest paid to a related

party; 5% rate applies to European Union-related companies if the residence statement is available prior to payment of the interests.

^(g) 5% of the gross amount of the dividends if the beneficial owner is a company which holds directly at least 10% of the voting capital of the company paying the dividends.

^(h) 10% of the gross amount of the dividends if the beneficial owner is a company which holds directly at least 10% of the capital of the company paying the dividends where the dividends are paid out of profits which by virtue of provisions in the Israeli Law on Encouragement of Investment in Israel are exempt from tax or subject to tax at a rate that is lower than the normal rate of Israeli company tax.

⁽ⁱ⁾ 5% of the gross amount of the interest arising in a Contracting State and paid on any loan of whatever kind granted by a bank of the other Contracting State.

^(k) 5% of the gross amount of royalties applies for the use of, or the right to use, any copyright of literary, artistic or scientific work including cinematograph films and films or tapes and other means of image or sound reproduction for radio or television broadcasting. 10% of the gross amount of royalties

applies for the use of, or the right to use, any patent, trade mark, design or model, plan, secret formula or process, or for the use of, or the right to use, industrial, commercial or scientific equipment, or for information concerning industrial, commercial or scientific experience.

^(l) 10% of the gross amount of royalties paid for the use of, or the right to use, cinematograph films and films or tapes for radio or television broadcasting. 5% of the gross amount of the royalties applies in all other cases.

^(m) 6% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the company paying the dividends.

⁽ⁿ⁾ 0% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) which holds directly at least 75% of the capital of the company paying the dividends; 5% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the company paying the dividends; 10% in other cases.

^(o) 7% of the gross amount of the interest arising in a Contracting State and paid on any loan of whatever kind by the beneficial owner, resident of second Contracting State; 0% of the gross amount of the interest arising in a Contracting State and paid on any loan of whatever kind granted by a bank or government of the other Contracting State.

The Law on Corporate Income Tax provides for the following transitional provisions in respect of the stated rate of withholding tax imposed on interest payments and royalties if the beneficial owner is a company which is a resident of another EU Member State.

Table 13. Withholding tax in transitional period*

Interest		Royalties	
Period	Rate	Period	Rate
01.07.2009 - 30.06.2013	5%	01.07.2009 - 30.06.2013	5%
From 01.07.2013	0%	From 01.07.2013	0%

*0% and 5% tax applies if the recipient is resident in another EU or EEA country and has a residence statement approved by the tax authorities of the recipient's residence country confirming that he is resident for tax purposes. The residence statement issued by the tax authorities of the country of the recipient of the royalties/interests must be at the disposal of the Latvian company prior to the royalty/interest payments.

VALUE ADDED TAX

According to the Law on Value Added Tax, adopted on 9 March 1995, VAT shall be charged on:

- supply of goods and services for consideration, including self-consumption;
- import of goods;
- Intra-Community acquisition of goods;
- Intra-Community acquisition of new means of transport performed by non-taxable persons.

VAT rates applicable in Latvia: 22%, 12% or 0%.

Registration

Persons registered in Latvia whose supplied goods and services during a 12-month period do not exceed LVL 35 000 (approx. EUR 49 800) are not liable to register as VAT payers. The said total value of supplied goods and services does not include the value of supplied capital and intangible assets if such supply has been carried out once in 12 months. However companies are allowed to

register as VAT taxable persons and further to apply VAT on supplies performed before the respective threshold is met. Moreover, non-taxable legal and natural persons registered in Latvia who carry out economic activities shall be liable to register as VAT taxable persons in Latvia if they perform intra-Community acquisition of goods or provide services and the total value of the transactions exceeds LVL 7 000 (approx. EUR 9 960) during the year.

Persons established in Latvia performing economic activities shall also comply with the following provisions:

- if a person who performs economic activities and provides services whose place of supply should be determined in accordance with Article 44 of Council VAT Directive 2006/112/EC to any person registered in the territory of EU who performs economic activities, or to a Community-registered legal taxable person that does not perform economic activities, the supplier has to register for VAT purposes in Latvia prior to the provision of such services;
- if a person who performs economic activities receives services whose place of supply should be determined in accordance with Article 44 of Council VAT Directive 2006/112/EC from another person registered in another Member State, or a person registered in a third country, who does not perform any taxable activities in the Republic of Latvia, the recipient has to register for VAT purposes in Latvia, prior to receiving such services.

When the above mentioned thresholds have been exceeded then the persons shall be obliged to register as VAT taxable persons in Latvia by the 15th date of the month following the taxation period when the respective amount was exceeded.

The registration threshold of LVL 35 000 (approx. EUR 49 800) does not apply to foreign taxpayers who are obliged to register for VAT purposes irrespective of the value of their transactions subject to VAT in Latvia, except specific supplies performed by EU taxpayers as prescribed by the Law on Value Added Tax.

A VAT group is also considered to be a taxable person. A VAT group is a group of two or more legal entities which is established on the basis of a VAT-group

foundation agreement in order to carry out inter-group transactions, which meets the criteria defined in the Law on Value Added Tax, and which is registered in the SRS Register of VAT Taxable Persons.

The Law on Value Added Tax provides special registration requirements for persons registered in other EU Member States where such persons carry out certain activities in Latvia:

- if a person registered in another EU Member State supplies goods inland (in Latvia) that are subject to excise duty in Latvia to a non-taxable person;
- if a taxable person registered in another EU Member State performs distance sale of goods in the territory of the EU and the goods are received in Latvia, and the total amount of such supply of goods without taxes in the current calendar year reaches or exceeds LVL 24 000 (approx. EUR 34 149);
- if a person registered in another EU Member State supplies goods to a non-taxable person and such goods are assembled or constructed inland (in Latvia);
- a person registered in another EU Member State who domestically carries out intra-Community acquisition of goods or supply of goods;
- if another EU Member State person supplies goods or provides services in Latvia which are taxable and according to the Law on Value Added Tax this person is liable for payment of tax into the State budget.

If a person registered outside the EU performs one or more taxable transactions inland and fails to register with the SRS Register of VAT Taxable Persons, the reverse charge VAT on the intra-Community acquisition of goods and reception of services shall be calculated by the goods or services recipient, if he is a VAT taxable person in Latvia.

Foreign businesses can be registered as taxable persons for VAT purposes either by registering the person in Latvia, or by registering their authorized representative in Latvia.

VAT deductions and refunds

Businesses are entitled to deduct input VAT on goods and services received to ensure the taxable transactions of the respective person provided they are registered as VAT taxable persons in Latvia. Retrospective registration is not allowed in Latvia.

Taxable persons are also authorised to deduct input VAT on goods and services received before their registration with the SRS as VAT taxable person in Latvia according to the proportion of taxable and non-taxable transactions, if the goods and services are or will be used for conducting taxable transactions.

Taxable persons are entitled to postpone payment of import VAT on imported goods if they have obtained a specific permit from the Latvian SRS which can be issued only if certain conditions stated in the Law on Value Added Tax are met.

Taxable persons are entitled to reduce the tax amount payable to the State budget for the tax amount of bad debts if certain conditions are met.

Input VAT also can be deducted from goods and services received to ensure the provision of certain financial services stipulated in the Law on Value Added Tax to persons registered in third countries.

It is possible to deduct input VAT within three years of the taxation period when the respective input VAT deduction rights were obtained. However, if the tax inspection covers the specific period (performs complete tax audit), the taxable person loses its rights to deduct the input VAT incurred in the audited taxation periods and not deducted as input VAT in the audited taxation periods.

Deducted input VAT for acquired real estate or fixed assets with value over LVL 50 000 (approx. EUR 71 144) must be annually adjusted over a ten-year period (for real estate) or five-year period (for fixed assets whose value exceeds LVL 50 000) considering the intended usage proportion of the real estate or fixed asset.

As from 1 July 2010, if the amount of input VAT exceeds output VAT, the SRS, after receiving the taxpayers VAT return, automatically examines, accepts and carries forward overpaid VAT to the next taxation period, first covering VAT and other tax debts. After the end of taxation year, the SRS repays the overpaid VAT into a bank account nominated by the tax payer.

Taxable persons are entitled to claim back VAT overpaid in the taxation period, if conditions specified in the Law on Value Added Tax are met.

VAT refunds to foreign taxpayers

Generally, taxpayers from other countries making no taxable supplies in Latvia may claim the refund of VAT paid in Latvia under requirements equivalent to EU Council Directives 2008/9/EC and 86/560/EEC. VAT refunds on VAT paid for goods acquired and services received in Latvia and import of goods to ensure their taxable transactions in the EU can be claimed by tax payers that do not carry out any business activities in Latvia and are registered in another EU country or in a country outside Latvia, if in the respective state a tax similar to VAT is applied in accordance with the reciprocity principle.

12% rated supplies and services

The VAT rate of 12% is applied to the following goods and services:

1. supplies of medicines according to a list stipulated by the Cabinet;
2. supplies of medical devices and medical goods (also assembly parts, spare parts and accessories) according to a list stipulated by the Cabinet;

3. supplies of specialised products intended for infants according to a list stipulated by the Cabinet;
4. academic literature, also for supplies of original literature, according to a list stipulated by the Cabinet;
5. supply of thermal energy to private individuals;
6. supply of natural gas to private individuals, except gas used for motor cars;
7. supply of several types of firewood to private individuals;
8. until 31.12.2011, the 12% VAT rate shall also be applied to newspapers, magazines, newsletters and other periodical publications which are issued no less often than quarterly and a single edition exceeds 100 copies, except erotic and pornographic publications or publications whose purpose is to publish advertisements or commercial announcements.

Zero-rated supplies and exemptions

The following groups of supplies and services are subject to the 0% VAT rate:

1. export of goods and the supply of such goods that are imported into EU territory from third countries or third territories and are not released for free circulation if the supply is performed in customs warehouses and free zones;
2. services which are related to the export of goods (also such export of goods for which the export procedure has been commenced in another EU Member State), import of goods and transit conveyances and services provided in a free zone and customs warehouse, which are directly associated with goods that are imported into EU territory from third countries and third territories and are not released for free circulation (including transport, forwarding, storage of goods, loading, unloading, expert-examination and sorting services);
3. supply of goods and services provided for and relating to ships and aircraft involved in international transportation;
4. services, which are related to movable property imported into the EU from third countries or third territories for the purpose of supplying services in the EU, and that shall be brought out from the EU to a third country or third territory after the supply of service by a supplier or receiver of the service, if the legal address or declared place of accommodation of the respective person is not in Latvia; or by other persons that work for the same supplier or receiver of the service;
5. supplies of goods performed by tax-free retailers to natural persons, who depart from Latvia to third countries or third territories;
6. carriage of international passengers, also carriage of passengers to EU Member States if the passenger crosses the border of the Republic of Latvia by train, bus, airplane or ship, as well as the carriage of the luggage of such passengers, which passengers are taking with them, and the carriage of a means of transport with which they are travelling; and
7. import of electricity or natural gas if the natural gas is supplied using transfer or distribution systems.

The following groups of supplies and services are exempted from VAT:

1. medical services and services connected with medicine, that are required to ensure medical services, according to a list approved by the Cabinet;
2. supply of human organs, mother's milk and human blood;
3. supplies of gold, coins and bank notes to the Bank of Latvia;
4. betting, raffles (lotteries) and other forms of gambling;
5. insurance and re-insurance services provided by insurers and insurance agents;
6. the following financial transactions:
 - granting and control of credits and monetary loans, as well as services related to sureties and guarantees and their supervision which is performed by the issuer of the credit,
 - services, which are related to the attraction of deposits and other refundable funds, the conduct of payments in cash and non-cash payments, and trust operations,
 - services related to the issuing and servicing of instruments of payment, as well as trading in instruments of payment and other money market instruments, except instruments of payment supplied for collectors or containing precious metals, and
 - services (including intermediary), which are associated with investment in capital and the holding, disposal and administration of securities, as well as the issuing of securities;
7. sale of real estate, including land, except for the first sale of unused real estate and the sale of building land;
8. the remuneration received by an author for work and its usage as well as remuneration received by performers and phonogram producers for neighbouring-rights objects and their usage;
9. others specified by the Law on Value Added Tax.

Reporting obligations

The Law on Value Added Tax provides for differentiated procedures for submitting VAT returns depending on the amount and type of taxable transactions during the pre-assessment year.

Table 14. VAT report-filing deadlines

Form	Filing requirements	Frequency	Filing date
VAT return together with annexes	Amount of taxable transactions is less than LVL 10 000 (approx. EUR 14 500) and the person does not perform transactions the place of supply of which is in another EU Member State	Semi-annually	15 th of the following month or 20 th of the following month if the VAT return is submitted electronically
	Amount of taxable transactions is LVL 10 000 to 35 000 (approx. EUR 14 500 to 50 000) and the person does not perform transactions the place of supply of which is in another EU Member State	Quarterly	
	Amount of taxable transactions exceeds LVL 35 000 (approx. EUR 50 000) or the person performs transactions the place of supply of which is in another EU Member State.	Monthly	
Intrastat		Monthly	10 th of the following month

Apart from the reporting obligations mentioned above, taxpayers who receive cash when carrying out business activity are obliged to register their sales by means of cash registers. Only some groups of taxpayers, including insurance brokers, taxpayers rendering certain types of passenger transport services, municipal and state authorities, are exempt from this obligation.

VAT due must be paid into the State budget on a monthly basis by the 20th day of the following month.

The annual VAT return for the preceding year is due on 1 May of the following year and shall be submitted only in the following cases:

- there have been changes in the proportion of taxable and non-taxable transactions for the taxable year;
- corrections have been made to the VAT payable or input VAT, according to the VAT rules;
- certain financial transactions prescribed by the Law on Value Added Tax (e.g. means of payment (currency, securities, derivatives, etc.)) have been conducted.

EXCISE TAX

According to the Law on Excise Duties the following products are subject to excise tax:

- alcoholic beverages
- tobacco products
- oil products
- soft drinks
- coffee
- natural gas

Excise taxpayers are:

- importers;
- approved warehouse keepers according to the provisions of the Law on Excise Duties;
- registered traders, registered receivers, temporarily registered receivers or contracting traders in cases stated in the Law on Excise Tax;

- persons, who import goods into Latvia or receive excise goods from other EU Member States, where the goods have already been released into free circulation;
- persons who import non-alcoholic beverages, coffee or natural gas into Latvia;
- other persons according to the provisions of the Law on Excise Tax.

Several exemptions from excise tax are available. Generally, the taxable period for excise tax is one month.

NATURAL RESOURCES TAX

Taxpayers

According to the Natural Resources Tax Law, adopted on 15 December 2005, taxable persons are:

1. Individuals or legal entities that have obtained or are obliged to obtain a special permit and who are, in the territory of Latvia or its continental shelf:
 - extracting certain natural resources;
 - selling taxable natural resources extracted in an economic activity not related to the extraction of mineral resources from subterranean depths;
 - utilising the useful properties of subterranean depths by pumping of natural gas or greenhouse gases into geological structures;
 - emitting taxable polluting substances into the environment or burying waste;
 - emitting greenhouse gases into the environment from stationary technological installations in which certain polluting activities are performed.
2. Persons who first, in Latvia:
 - sell goods harmful to the environment or goods in packaging or coal, coke and lignite (brown coal) as well as enclose goods in packaging for the convenience of buyers or promotional purposes;

- use goods harmful to the environment to ensure their economic activities, except goods harmful to the environment that are taxable upon sale;
- upon provision of a service, attach packaging to the product, and this packaging reaches the recipient of the service in the provision of the service;
- use coal, coke and lignite (brown coal) to ensure their economic activities, except coal, coke and lignite (brown coal) that is taxable upon sale.

3. Persons who, in Latvia, sell either in public catering or retail, disposable tableware and accessories manufactured from plastic (polymers), paper, cardboard, composite materials thereof (laminates) with polymer or metal components, metal foil, wood or other natural fibres;

4. Persons, who use radioactive substances in their activities, as a result of which radioactive waste is created, which it is necessary to store or to dispose of in Latvia;

5. Persons, who register certain vehicles permanently for the first time in Latvia.

Tax relief

Legislation provides for natural resource tax incentives for companies engaged in activities intended to reduce environmental pollution and the consumption of natural resources. Certain provisions of the Natural Resources Tax Law define the requirements to be met in order to obtain tax relief.

MOTORCYCLE AND MOTOR CAR TAX

Individuals or legal entities on whose behalf cars or motorcycles are registered in Latvia are liable for the tax on motorcycles and motor cars. For cars and motorcycles which were initially registered abroad after 1 January 2009, the applicable tax rate depends on the amount of carbon dioxide generated by the vehicles. Motorcycle and car tax must be paid for cars or motorcycles which are going to be registered in Latvia for the first time, including cases when the specific rules giving rights to exemptions from car and motorcycle tax are not complied with.

GAMBLING TAX

Gambling and lottery tax is levied on business entities that have obtained gambling licences. The annual licence fee per company is from LVL 10 000 (approx. EUR 14 229) to LVL 300 000 (approx. EUR 426 862) depending on the type of gambling activity. Gambling tax is payable annually for each gambling facility or gambling machine.

For example, roulette tables are subject to LVL 9 600 (approx. EUR 13 660) gambling tax; totalisator games are subject to 15% tax on revenue; each slot machine – LVL 1 680 (approx. EUR 2 390), each bingo venue is subject to 10% tax on revenue.

Lottery tax is imposed on the sale of lottery tickets at the rate of 10% of revenue. Revenue from the sale of instant lottery tickets is subject to 10% tax.

ENERGY TAX

According to the Electrical Energy Tax Law, adopted on 19 December 2006, electrical energy tax shall be charged on electricity supplied to the end users, as well as on electricity supplied for self consumption. Generally, the electrical energy tax rate is LVL 0.71 (approx. EUR 1) per MWh.

Electrical energy tax shall be paid by:

- electricity generators who have been issued a licence to generate electricity;
- licensed electricity traders;
- autonomous electricity generators.

TAX PENALTIES

The penalties for incorrect calculation and/or payment of taxes are as follows:

- unpaid taxes are subject to a late-payment fee of 0.05% per day not paid. The calculation of late payment penalties shall cease when the total reaches the amount of the initial debt;
- where tax has not been declared, the amount of tax penalties depends on the proportion of the value to the State Budget. For example, where the non-declared amount of tax does not exceed 15% of the total amount of tax due, then the penalty shall be in the amount of 30% of the tax not paid;
- should the taxable person accept the additional tax calculated and pay the tax due into the State Budget within 30 days of the of tax audit decision being received, the penalty shall be reduced to 15% of the initial tax debt.

Decisions of the tax authorities may be appealed with the Director of the SRS within 30 days of the date the decision was received.

Additional information at:

www.vid.gov.lv
www.fm.gov.lv



Trade and Customs

TRADE AND CUSTOMS PROCEDURES

Since accession to the EU in 2004, customs policy has been regulated by EU legislation. Latvian customs legislation only regulates specific areas not covered by EU legislation.

Trade with EU member states

In accordance with the EU principles of free movement of goods and the European Trade and Customs Union, Latvian economic operators benefit from preferential trade procedures with other EU Member States. Customs borders between member states of EU are replaced by random customs control by mobile customs control units. Goods purchased from within the EU are not subject to customs declarations and VAT payment at the border. Supplies of goods between member states are not treated as import or export, but as free circulation. According to the Community Customs Code, community goods are:

- goods fully produced in the EU, without any raw materials from third countries;
- goods imported from third countries which have been released for free circulation in the EU customs zone;
- goods produced in the EU customs zone from the above goods.

Goods are subject to internal transit procedures (preparation of respective customs declaration) if they are transported from one member state to another, crossing the territory of a third country.

Companies exporting goods from Latvia to any EU Member State or importing goods from the EU must declare the amounts of the corresponding goods in the statistical-information tracking system INTRASTAT.

Trade with third countries

According to the EU Customs Code, the owner of the goods or his representative must lodge a customs declaration for all goods related to trade with third countries and the territories of the EFTA or the movement of non-EU goods within the EU by submitting a Single Administrative Document (SAD), which covers the placement of any goods under any customs procedure, whatever the mode of transport used.

According to Article 79(2) of the EU Customs Code, goods imported into the EU must undergo a procedure for release into free circulation including the collection of import duties in line with the Community Customs Tariff and other taxes payable for import procedures, as well as any other formalities laid down as regards the importation of goods. The time a customs declaration is accepted for release into free circulation determines, in principle, the date to be used for calculating the amount of import duties if the goods are liable. In cases of temporary importation, when goods are re-exported to the same state they were in, oral declarations may be made at import for certain types of goods and goods may be fully or partly exempt from customs duties or other taxes.

The export procedure involves the application of all export measures (export restrictions and surveillance measures) and is obligatory for Community goods leaving the EU customs territory. To complete the export procedure, exporters or their representatives must present a goods and export declaration using a SAD. Goods are released for export on condition they leave the EU customs territory in the same condition as when the declaration was accepted. Goods declared for export are subject to customs control from the accepting of customs declarations until the moment the goods leave the EU customs territory, are destroyed or their customs declaration is cancelled.

TRADE AND CUSTOMS DUTIES

Customs duty is applied to goods imported from or exported to third countries. Upon the release of goods for free circulation in the EU customs area, Common External Tariffs are applied, meaning that the same duty is applied for import into any EU Member State. The amount of import duty applied depends on the classification and origin of the goods and is stipulated in EU legislation. VAT and other taxes, if applicable, are applied to imported goods only in the country where the goods are released for consumption.

The origin of goods may be preferential or non-preferential. Goods of preferential origin can apply for lowered or zero customs duty. The EU has concluded

agreements granting preferential treatment to goods traded with the countries of the European Economic Area, Mediterranean and African countries, the western Balkans and others.

Importers of goods can acquire EU tariff quotas permitting importers to import certain amount of goods in certain periods of time for lowered or zero customs duty. Importers can obtain tariff quotas applicable to specific goods or specific goods from a specific country.

Additional information at:

www.vid.gov.lv

www.fm.gov.lv



Accounting and Auditing

ACCOUNTING

Accounting and bookkeeping in Latvia are regulated by the Law on Accounting, which states that accounts must reflect all of a company's economic transactions and all changes in the state of the company's property so that a third person qualified in the area of accounting may obtain a true and clear representation of the financial position of the company.

Accounting registers must be maintained in the Latvian language and kept together with source documents in the territory of Latvia. If a foreign legal or natural person participates in the economic transactions, another language may be used. Companies, except for individual merchants and farms whose revenues in the previous financial year did not exceed LVL 200 000 (approx. EUR 284 576), must maintain accounting registers using a double entry accounting system. All source documents, accounting registers and other documents related to the company's accounts must be kept in the company's archive for a period between 5 and 75 years, depending on the type of the respective documents.

Companies commencing activities and in the future, at the end of each accounting year, must carry out an inventory, in which all the property owned by the company is assessed on site, as also are the amounts of debtor and creditor claims and obligations. Based on the initial inventory data, companies must draw up an opening balance sheet.

The accounting year usually coincides with the calendar year. The first accounting year for newly established companies may not exceed 18 months. Companies may change their accounting year if appropriate explanations are provided. Where the financial year is different from the calendar year, this should be stated in companies' Articles of Association.

ANNUAL FINANCIAL REPORTING

Companies, cooperatives, individual merchants and farms registered in Latvia must prepare annual financial reports in accordance with the Annual Accounts Law if revenue in the previous financial year exceeded LVL 200 000 (approx. EUR 284 575). Annual financial reports consist of a financial report and a report by the company's management. Companies can choose not to prepare cash flow statements, statements of changes in equity, to not calculate and report deferred tax assets and obligations, and may prepare shortened annexes, if the company does not exceed two of the following conditions:

- total value of balance sheet – LVL 250 000 (approx. EUR 355 712)
- net turnover – LVL 500 000 (approx. EUR 711 440)
- average number of employees in the accounting year – 25

Reports by company management must provide information about the development of the company, financial results, also the main risks and uncertain conditions faced by the company.

The annual financial reports prepared by companies who exceed two of the above criteria, also if transferable securities issued by a company are admitted to trading in the regulated market of a Member State, must be audited by a sworn auditor in accordance with the Law on Sworn Auditors.

Companies must submit their annual financial report together with the sworn auditor's report (if such exists) to the SRS no later than a month after approval of the annual financial report and no later than four months after the end of the accounting year.

Additional information at:

www.vid.gov.lv
www.fm.gov.lv



Quality of Life

SIGHTS AND EXPERIENCES

Apart from being the capital of Latvia and indisputably the largest city in the three Baltic States, Riga is also Europe's capital of *art nouveau* architecture and one of the 'greenest' cities in the region. Entertainment options for all ages and tastes range from upmarket clubs, cinemas and casinos, to traditional theatres and exhibitions, as well as a zoo and an open-air *Skansen*-style museum for family visits. The Latvian National Opera, in the very centre of Riga, is a proud architectural symbol of a newly independent nation – hosting internationally renowned orchestras, opera and ballet troupes; it also attracts major international artists touring Europe. Riga's Old Town is on UNESCO's Cultural Heritage List and offers a variety of historical and contemporary influences captured in a number of Lutheran, Catholic and Orthodox churches, a Synagogue and, naturally – a mix of international restaurants and Irish & British pubs all within few blocks. Latvia's own distinctive cuisine is becoming a major attraction for visitors to Riga, with a number of local 'ethnic' restaurants arriving on the scene throughout the capital.

Nevertheless, Riga and its surrounding region is only half of the story – the remainder can offer an array of recreational options from cosy B&Bs with only a light touch of 'virtual rurality' to open-air medieval theatre or rock and pop festivals with international stars. Staying in a country house featuring a Latvian 'herbal sauna', horseback riding across scenic hills or fishing in a murmuring stream or river makes for a refreshing shared break, either for a management team or a family. For a more culturally oriented country trip there are numerous castles and manors complete with a variety of museums. The extensive Baltic seashore is full of traditional fishing villages welcoming hungry visitors with delicious freshly smoked fish or proffering pleasant boat trips.

The most important national celebration in Latvia is St. John's Day – the summer solstice on the 23rd of June,

when the entire nation gathers at bonfires to greet each other with bouquets of seasonal flowers and grasses and to consume a slice of traditional cheese with a mug of specially-brewed beer. Latvia also boasts its own renowned quadrennial event — the *Song and Dance Festival* which culminates in an open-air massed choral concert featuring several thousand singers.

Latvia is also fond of modern musical traditions – the most popular Latvian pop music group *Brainstorm* has become popular across Europe after its success at the 2000 *Eurovision Song Contest*. Latvian singer *Marie N* went one step further by winning *Eurovision* in 2002 and the 2003 contest subsequently took place in Riga. The rapidly growing music-festival scene offers musical entertainment for any taste from the *Early Music Festival* in the Rundale Palace to the *Positivus Festival* at the seaside in Salacgriva.

For sports fans, Latvia can offer all the traditional activities including basketball, football, tennis, ice hockey, as well as golf, swimming and tenpin bowling. In terms of outdoor activities, the most popular are jogging, hiking, cycling and orienteering. In addition, there are a number of rivers and streams with good facilities for recreational rafting and canoeing, and for winter sport enthusiasts, several hills equipped for downhill skiing.

The most popular spectator sports are ice hockey, football and basketball. Since Latvian teams have participated in their respective world championships, Latvian ice-hockey and football fans have become well-known all over the world. In 2006, Riga hosted the world ice-hockey championship. Latvian hockey team *Dinamo Riga* competes in the newly established *Continental Hockey League* and in 2009 reached the competition's semi-finals.

Wind tunnels were not initially intended for active recreation and entertainment, but Sigulda begs to differ and offers the *Aerodium* wind tunnel – a device blasting

air upwards in the form of a vertical pillar, so enabling visitors to literally take to the air. The coaches at *Aerodium* are among the most professional people in the world in this area – proved by the fact that the *Aerodium* team participated in the closing ceremony of the Turin Winter Olympics in 2006 and built the Latvian pavilion at the international EXPO 2010 exhibition in Shanghai.

NATURAL TREASURES

Despite being a relatively small country of northerly latitude, Latvia features remarkable biodiversity as a result of low-intensity agricultural and forestry activities during the years of worldwide industrialisation. This, together with low rural population density, has ensured the survival of ancient forests which host an incredible variety of fauna, large and small. White, and the rarer black, storks have a number of colonies in northern Latvia, along with other rare plant and animal species. This has seen Latvia become a hot spot on international bird watchers' maps. For less 'professional' eco-tourists there is a national park and four nature reserves spread across the country, each with educational nature trails, observation platforms and herds of wild horses.

SETTLING IN LATVIA

Along with international chain hotels, Riga and the other largest cities have first-class residential property available for purchase or rent. The prices for these vary greatly, depending largely on location. The purchase of

a comfortable country home in close proximity to any major city is guaranteed to be a sound investment. Latvia has one of the highest ratios of doctors per head of population and this ensures the quality of medical service in both public and private health centres and clinics. This, in combination with reasonable costs, has recently created a wave of 'medical tourism' from neighbouring EU countries where medical costs can be excessive. Two international schools, in the seaside suburbs of Jūrmala, and beside the Daugava River at Kipsala, are highly appreciated by the children of diplomatic staff and the country's expatriate populations. In addition, most Latvian universities and colleges offer education of international quality within the humanities, social and natural sciences, and technologies for English-speaking exchange students or free-movers.

Apart from organisations such as various foreign chambers of commerce, informal circles of expatriates have formed in Riga, uniting people from various countries and professional backgrounds for regular cultural and recreational activities.

Additional information at:

www.inspirationriga.com
www.latviatourism.lv
www.liveriga.com
www.allhotels.lv
www.celotajs.lv
www.li.lv



Promotion of Entrepreneurship, Investment and Foreign Trade

Government Agency, the Investment and Development Agency of Latvia (LIAA), reporting to the Ministry of Economics, was founded to promote business development by facilitating the growth of foreign investment and increasing the competitiveness of Latvian entrepreneurs in domestic and foreign markets.

With more than 15 years of experience in the attraction of foreign direct investment to Latvia and promotion of foreign trade, LIAA today offers an integrated solution; it supports both companies in Latvia trading internationally, and overseas enterprises seeking business partners or location in Latvia. To meet both these objectives, LIAA administers the State Support Programmes for Entrepreneurs, co-financed from EU Structural Funds.

LIAA is also involved in the implementation of national programmes for export and investment attraction. Working in close cooperation with the business community (particularly with the Foreign Investors Council in Latvia, the National Economic Council and industry associations) LIAA facilitates the steady improvement of the business environment, particularly in the area of administrative procedures.

ONE-STOP-SHOP FOR FOREIGN INVESTORS AND BUYERS

Investment facilitation

Assistance in investment location selection and implementation of investment projects:

- provision of all relevant information on business opportunities and investment incentives;
- identification of the best property options for manufacturing facilities, offices and land;
- assistance in establishing and developing contacts with Latvian business partners;
- providing information on potential investment opportunities in Latvia (Investor search for Latvian companies and projects);
- assistance with start-up procedures.

Supplier searches

Assistance in finding appropriate Latvian suppliers and in increasing their competitiveness:

- provision of information on Latvian exporting companies, export products and services;
- search of Latvian suppliers according to buyers' requirements;
- distribution of incoming business proposals to Latvian companies directly and via the internet;
- organisation of trade seminars and foreign trade missions to Latvia;
- consultancy and foreign market studies for Latvian enterprises;
- assistance to Latvian companies at various international exhibitions and trade missions, export promotion campaigns and business matchmaking;
- provision of information on workforce availability and skills' evaluation.

Follow up service

Follow-up and support after the implementation of investment or sub-contracting projects.

State support programmes

Implementation of a number of state support programmes available for companies registered in Latvia, advancing grants for participation in international exhibitions and trade missions, consultancy, modernisation of business-related infrastructure, development of new products and technologies, increasing the qualifications of employees.

Information on EU single market

The Latvian branch of the Enterprise Europe Network (EEN) operates within LIAA and provides information about European Union policies, legislation, regulations, trade systems, and assists in the seeking of business partners within the EEN network in 47 countries around the world.

International and regional network

LIAA is local and international at the same time. Its network of foreign representatives and cooperative network with other institutions in Latvia and abroad takes LIAA close to its customers and links them to the main markets, business partners and locations.

LIAA has representative offices in London (UK), Berlin (Germany), Stockholm (Sweden), Paris (France), the Hague (the Netherlands), Oslo (Norway), Copenhagen (Denmark), Moscow (Russia) and a developed network of public representatives in Germany, Finland, Switzerland, Liechtenstein, Ukraine, Russia, India and Egypt.

LIAA works in close cooperation with the Ministry of Foreign Affairs and diplomatic missions represented in 75 countries around the world.

LIAA also cooperates with local municipalities and regional development agencies.

Foreign representatives

LIAA foreign representatives provide information about business opportunities in Latvia, relevant legislation, the taxation system, the national economy and external trade. They promote and facilitate cooperation between Latvian companies and businesses in the particular country or region. The representatives assist in finding co-operation partners.

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Abbreviations

CEE	Central and Eastern Europe
CIS	Commonwealth of Independent States
EEA	European Economic Area
EFTA	European Free Trade Association
EU	European Union
EUR	Euro
FCMC	Financial Capital and Market Commission
FDI	Foreign direct investment
FICIL	Foreign Investors' Council in Latvia
GAAP	Generally Accepted Accounting Principles
GDP	Gross domestic product
ICSID	International Centre for Settlement of Investment Disputes
IFRS	International Financial Reporting Standards
ISP	Internet service provider
IT	Information technology
JSC	Joint-stock company
LIAA	Latvijas Investīciju un attīstības aģentūra (Investment and Development Agency of Latvia)
LLC	Limited liability company
LVL	Latvian <i>lats</i>
OECD	Organisation for Economic Cooperation and Development
PIT	Personal income tax
R&D	Research and Development
RO-PAX	Roll-On-Roll-Off-Passenger-ship/ferry
RO-RO	Roll-On-Roll-Off Ships
SAD	Single Administrative Document
SEA	State Employment Agency
SME	Small and medium enterprises
SRS	State Revenue Service
SSC	Social security contributions
UNCITRAL	United Nations Commission on International Trade Law
VAT	Value added tax



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